www.pwc.com/wealth

Anticipating a new age in wealth management

Global Private Banking and Wealth Management Survey 2011

Helping senior management chart the course to the future, manage risk, and implement key building blocks for success.

June 2011

pwc

Contents

Foreword 1

Survey headlines 4

01 Performance and change 6

02 Markets and clients 14

03 Client relationship managers and human capital 24

04 Operations and technology 32

05 Risk management and regulation 38

Survey background 46

Contacts 51

PwC services 53

The PwC Private Banking and Wealth Management Leadership Team

C. Steven Crosby
Americas Leader

Jeremy Jensen
EMEA Leader

Justin Ong
Asia Pacific Leader

Foreword

We would like to thank each and every one of the 275 organisations across 67 countries who participated.

275 organisations

67 countries

We are delighted to present insights from the 2011 edition of our Global Private Banking and Wealth Management Survey.

Much has changed since our 2009 edition. After the tumultuous and destructive global financial crisis, the world has moved on, but the path of progress has been difficult. Given the current geopolitical reality, significant economic uncertainty and profound change in the regulatory and consumer environments, PwC[1] found participants in this edition of our survey to be struggling with the reality of the new normal, ever increasing change and uncertainty.

Just as prior perspectives in our survey reflected the situation at the time so does the 2011 survey. Change, its impact and consequences define what our respondents think about the position and potential of their businesses.

The survey provides a number of perspectives on private banking and wealth management. In our analysis, tougher clients, the impact of regulation and the need for greater efficiency are leading to performance challenges. The pace of change is also faster than it has been historically and organisations' ability to adapt and change is now critical as cost income ratios remain stubbornly high.

Analysing these and other factors provides us with several of the main drivers which in our view herald a new age in the wealth management industry.

1 "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network.

Implementing transformational change across all its dimensions is an essential characteristic of those institutions that will be the future industry leaders.

Client evolution:

The client is cautious, smart, less trusting and loyal and now demanding better service and clearer value

Clients are taking nothing for granted and are probing the fundamentals of their advisor relationship: “Do you really provide a value add for me?” and “So why exactly should I be loyal to you?” Increasingly clients all across the entire wealth pyramid are taking charge and articulating a view that private wealth products and services should be simpler, more transparent and deliver clearer value. The private banking and wealth client of today has far higher expectations in terms of both performance and service delivery. The sleeping giant is indeed awakening, and to succeed as a truly trusted advisor, successful organisations will have to up their game in service provided and value delivered.

The impact of regulation:

A much more demanding regulatory agenda will continue to challenge existing business models

Regulation continues apace and the financial services industry is clearly under scrutiny. Regulation has profound impacts and consequences for all business models. It is increasingly the not-so-invisible-hand trimming profitability. In our view this will only accelerate as regulatory developments continue coming hard and fast. The industry will need stronger risk management infrastructures, particularly in the front-office and around client interaction, to cope with current and future regulatory initiatives which strive to protect consumers from the organisations or professionals they turn to in safeguarding their wealth. Business models will need to evolve dynamically in order to keep pace as strategic directions change in reaction to the implementation of fast moving regulatory agendas.

Operational excellence:

Far greater operational efficiency and effectiveness are required

Never before has identifying and delivering excellence in terms of operational and systems efficiencies been so important. Shared services, outsourcing and new technologies are gaining traction. The real challenge is not just delivering efficiencies and cutting costs, but also improving the overall quality of the client experience. This means doing it all at the same time. We are entering an age when only those who can genuinely deliver transformative change on a cost-effective basis will lead the industry.

Regaining trust and delivering excellent client service and clear value are now critical to success.

Change is the reality:

Standing still is no longer an option. Being able to see beyond the pressures of today and implement effective change is critical

The industry's track record on executing complex cross-functional change has not always been great. The sheer enormity of change driven by these current themes is vast. But, it is equally clear that the status quo is not an option either for profitability today or survival tomorrow. Leading a private wealth management business is a challenging experience right now and is becoming even more so. Institutions need to chart a clear course and direction to come to grips with how they approach barriers and challenges to change. Our survey tells us barriers span right across the industry, at every wealth segment, and every business model and type. It also tells us that leadership, for a variety of reasons, may not truly be focused on innovation and the investment necessary to effect transformative change.

Whether this is temporary, a legacy of the global financial crisis or a consequence of the weight of regulatory compliance, it is clear that mastering transformational change across all its dimensions will be an essential characteristic of those institutions who will be the future leaders in this industry.

This report sets out a snapshot of the industry. We trust that the findings can be used to help guide analysis and thinking, to evolve enhanced private wealth businesses today to better serve clients tomorrow. As we did in our 2009 report, we have set out a number of PwC Points of View giving our opinion and views on some key industry topics. We believe that you will find this survey insightful and thought provoking. We would be delighted to discuss any of the issues discussed within this report in more detail at *wealth@pwc.com*. Please do not hesitate to contact any member of the global wealth team, or your local PwC contact.

The results of our 2011 survey encompass significant industry participation and we would like to thank each and every one of the 275 organisations across 67 countries who participated. We would also like to thank the entire PwC team which has worked to produce this report.

The PwC Private Banking and Wealth Management Leadership Team

C. Steven Crosby
Americas Leader

Jeremy Jensen
EMEA Leader

Justin Ong
Asia Pacific Leader

Survey headlines

Client evolution:
The client is cautious, smart, less trusting and loyal, and now demanding better service and clearer value

The impact of regulation:
A much more demanding regulatory agenda will continue to challenge existing business models

Operational excellence:
Far greater operational efficiency and effectiveness are required

Change is the reality:
Standing still is no longer an option. Being able to see beyond the pressures of today and implement effective change is critical

01

Performance and change

Performance remains under pressure and there is wide divergence across the industry. Cost and regulation are the new drivers of change.

Securing sustainable revenue growth is key, particularly for offshore market players.

Participants anticipate having to achieve significant change across their business and operating models—but wealth management as an industry has traditionally struggled to deliver effective change.

02

Markets and clients

Significant and sustained wealth management growth is expected in emerging markets.

Markets are changing and respondents believe there will be movements in global financial centre rankings.

Clients are focused on value. The industry must cater to clients' perceptions of what value added really is for them and the price they are willing to pay for it.

Collaboration and more effective referral leverage is now a necessity, particularly by those with retail, corporate or investment banking arms.

The industry can no longer be all things to all people and must focus its energy on specific markets and segments. Institutions must be crisp around what they will, and will not, do.

03

04

05

Client relationship managers and human capital

Top quality people are becoming more valuable, more difficult to source and more expensive to train.

Institutions must work harder to leverage their human capital investment by supplying their CRMs with appropriate tools and technology.

Clear people value propositions are now essential as client relationship managers have reduced in record numbers.

The industry is getting better at institutionalising client relationships with the organisation.

Linkages between performance and pay are becoming critical.

Operations and technology

Cost pressures are severe and much more effective approaches to cost management are required.

Respondents are at different stages of their operational evolution. Many continue to run legacy systems and manual processes.

Technology budgets are being directed to better support client relationship managers and the front-end client experience.

Risk management and regulation

Managing risk is central to reputation. Risk management systems and processes are being upgraded to provide integrated approaches to better align risk and value.

Cross border standards, customer protection and transparency are anticipated to impact the front-end client experience in particular and profitability in general.

Respondents continue to be concerned about the impact of increased regulation on operating costs.

01

Performance and change

Performance remains under pressure and there is wide divergence across the industry.

Cost and regulation are the new drivers of change. Securing sustainable revenue growth is key, particularly for offshore market players. Participants anticipate having to achieve significant change across their business and operating models—but wealth management as an industry has traditionally struggled to deliver effective change.

9% of survey participants achieved both superior revenue growth and profitability performance in today's more challenging environment.

9%

The industry is still finding revenue growth and cost containment challenging

The dominance of existing players is being challenged, with new players emerging. Business models need to adapt to a more demanding generation of clients and regulation. Those that are agile and manage change effectively will be tomorrow's leaders.

With tougher growth challenges there is a need for stronger profitability management. Achieving both revenue growth and managing the bottom line is now more challenging. We asked participants for their revenue and cost performance to illustrate respondents' individual positions in terms of their ability to grow and to contain their costs at the same time. Please see Fig. 1.

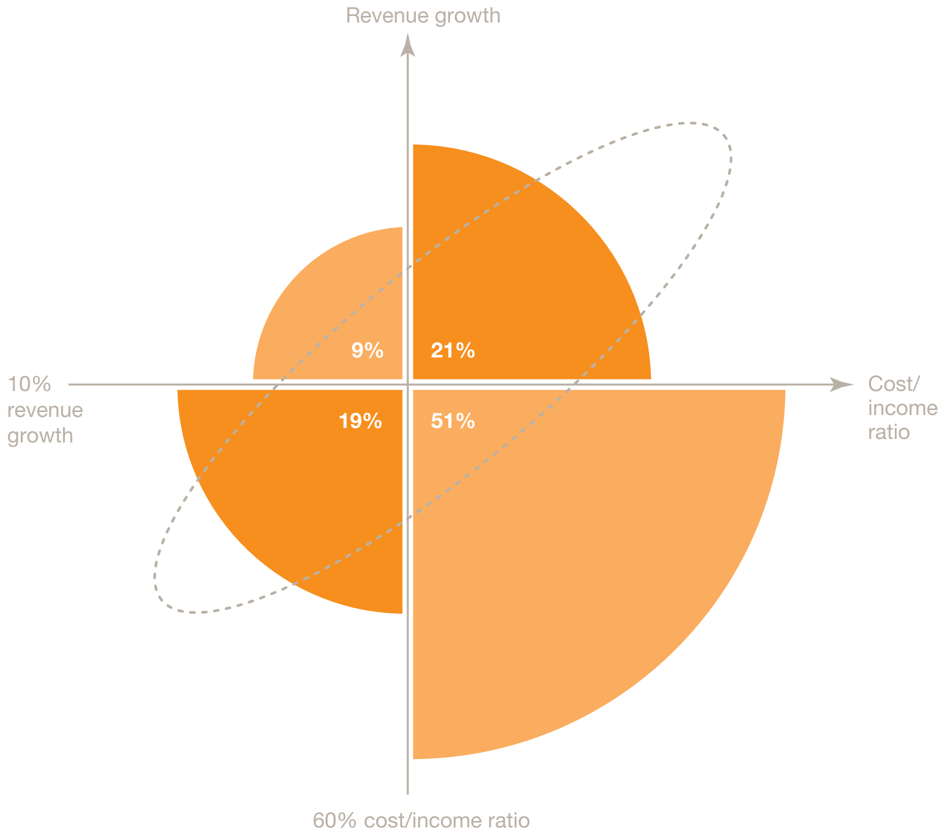
Our analysis shows that wealth managers are experiencing varying degrees of success in dealing with today's challenges with fewer than a third achieving cost-income ratios below 60%. As illustrated in Fig. 1 only 28% of respondents have cost income ratios below 60%, and the majority 72% have cost income ratios above 60%.

Respondents provided us with unique insights into their revenue and cost management approaches. The top three strategic areas of focus are: Acquisition and retention of new and existing clients, transforming the business model to meet the challenges of the external environment and sustainable revenue growth. Additional areas included achieving greater operational synergies and integration across the wider organisation, acquiring talent, retaining key staff, improving profitability and meeting the new regulatory burden.

In such a challenging environment, it is not surprising that the sector's historical leadership ranking is changing. When we asked respondents whom they regarded as their three most successful competitors, more firms were rising and falling than previously. The traditional order is now changing and, interestingly, size does not necessarily bring success but rather leadership, client focus and the ability to implement change now confer advantage. Some non-traditional competitors with these capabilities are now regarded as successful in some markets.

Figure 1: Performance and change – revenue growth and cost/income

When looking at what our respondents told us about their 2010 cost/income ratios and revenue growth, we observed only a small group as performing well and the majority facing challenging prospects.



01

Driving revenue growth through client acquisition and retention becomes far more challenging

We asked respondents to rank their three strategic priorities. Reflecting the challenging business environment, their number one priority was attracting new clients. They were doing this through organic development of existing resources, increasing their share of clients' assets and improving the overall client experience. Respondents' second priority was hiring senior relationship managers in order to acquire clients and to enhance the calibre of their relationship managers as a whole. Gaining more clients through referrals from professional intermediaries and across internal silos in their institutions was also regarded as a priority, reflecting the wealth sector's return to a more interconnected referral-based model. Finally, respondents cited mergers and acquisitions with hires of whole relationship management teams as important. In this case integrating teams needs to be managed carefully, especially as clients become frustrated by following their client relationship managers (CRMs) from one firm to another, and going through multiple client acceptance and on-boarding experiences.

Interestingly, some respondents are seeking to provide services to other private banks and wealth managers, showing the increasing incidence of white labelling and outsourcing. Joint ventures were identified as a way to gain entry into newer markets, particularly in those cases where local knowledge and networks can accelerate progress.

The challenges and opportunities of achieving client growth should not be underestimated. Only 15% of CEOs responding told us their CRMs had gained true trusted advisor status. Equally telling is that only 37% of respondents believe their clients are highly satisfied and would recommend them to potential clients. Respondents understand that improving the client experience is vitally important. They believe that relationship manager quality, the client service model and approach, brand and reputation, and the provision of high quality advice are all important differentiators.

In addition to surveying the industry, we also studied private clients to ascertain their views about experiences with wealth management providers. This research gave us valuable insights, suggesting that clients are not receiving the levels of service they expect. While clients generally rated everyday banking services positively, this did not extend to investment advice and products. Many private clients we surveyed now expect more value from their providers. This encompasses more frequent contact, transparency around products and charges and improved levels of service. Above all, they often felt that they were not getting value for money, which corresponds with other findings showing that wealth managers are trying to improve client service in order to retain clients.

Wealth management and private banking is now like many other industries where new entrants are rising up to challenge long-established institutions.

37% of respondents regarded themselves as on track or ahead of plan in terms of currently being able to build on their revised strategy and business model to reach the next level of performance.

37%

Business models are struggling to adapt to the changing environment

When we asked executives how concerned they were about challenges to business growth, all voiced apprehension. Two thirds of respondents indicated that their organisation now faced multiple waves of change.

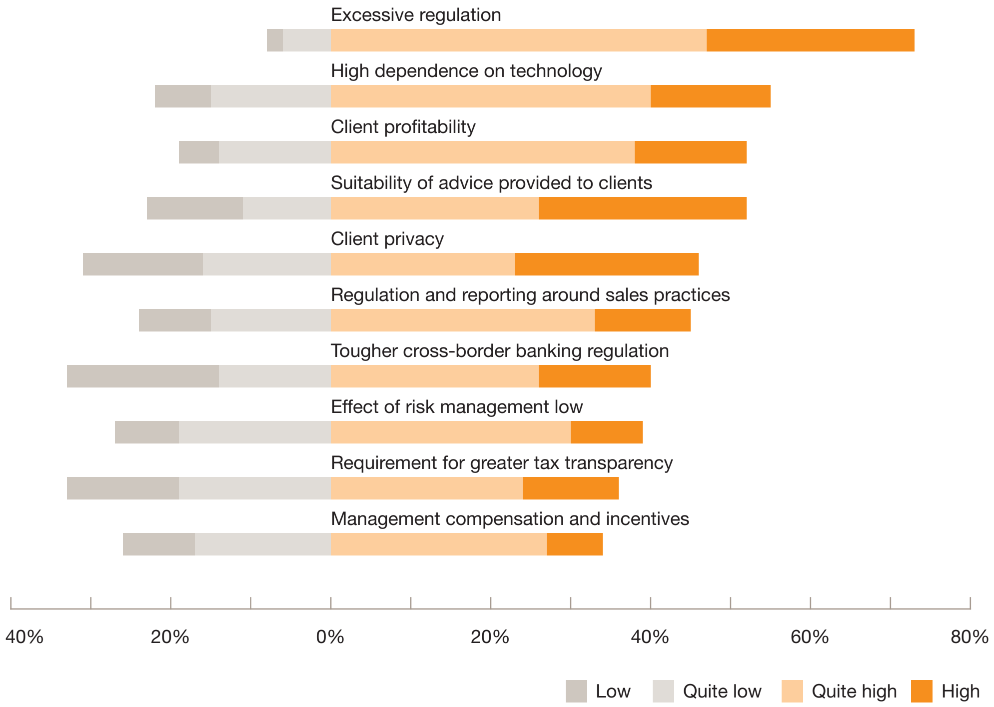
Respondents are most concerned about new regulations and the costs of implementing them. Their second greatest concern was the long-standing issue of attracting and retaining high-quality CRMs. But this is now made more topical by greater anxiety about changes in client needs and behaviours, attracting the next generation of clients and clients' loss of trust than had been shown in previous surveys. Some long-standing worries that still registered were the increased cost of hiring and retaining top talent, growing competition and an increased focus on clients' demands for continued service and reporting improvements.

We asked participants to identify and rank their top risks according to their severity. Please see Fig. 2. Participants identified some new risks including excessive regulation, suitability of client advice provided, client privacy, anti-money laundering and client data theft, high dependence on technology, client profitability, and tougher cross border banking regulation as key challenges.

In the post-crisis environment, those wealth managers with the leadership, focus and agility to implement business and operating model changes will have an opportunity. If they take advantage of this, they can increase both performance and profitability on a sustainable basis. To obtain a view of respondents' progress in adapting their strategies and business models to implement change, we asked senior management to describe their current situations in detail. Their responses show clear leaders and laggards emerging as the industry struggles to implement change. Some 37% of respondents regarded themselves as ahead in revising their strategies and business models with the aim of unlocking growth and efficiency opportunities. A further 36% said they had already adapted their strategies. Having worked on evolving their business models, reducing costs and increasing efficiency, they were taking a break before moving ahead with further initiatives. A further 28% were still implementing change with varying degrees of success. Regardless of their stage of implementation, respondents are focusing on similar areas including: expanding active investment advisory services, increasing financial planning, asset and liability management, and ultimately in some cases becoming solutions providers.

Figure 2: Risk severity top 10

Please rate the following risks in terms of their severity to your organisation.



CEOs told us they see the rate of significant consolidation more than doubling to 30%.

30%

Wealth management as a business remains profitable and our respondents anticipate profitability growing in spite of considerable change and new regulations. While our respondents earn an average gross margin of 72 gross basis points (bps) on their assets under management, they expect this will increase to 78 bps over the next two years.

Moving clients up and down the wealth pyramid in terms of service level and attention is going to be a new differentiator for successful firms in the future. Balancing profitability with long-term relationships across generations will also be important.

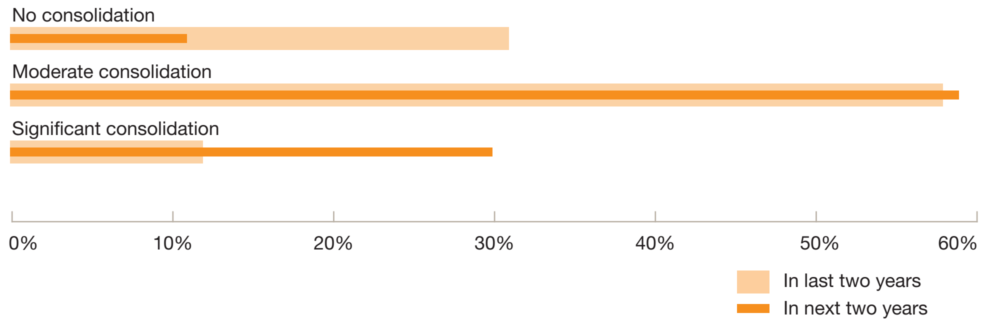
Respondents plan to better control costs over the next two years mainly by focusing on improving operating models through process effectiveness and operational efficiency, new technology, strategic sourcing/procurement and infrastructure consolidation. Through these measures they expect to reduce cost-income ratios. Survey respondents' average cost-income ratio remains high, having only fallen slightly to 71%, down from 72% at the time of our 2009 survey.

Costs have already been reduced in the front office, following a cut in the number of non-strategic client relationships and segments. Furthermore, CRM redundancies, segment rebalancing and higher degrees of automation have reduced costs. In the future, our respondents anticipate that rationalisation of technology systems and products, as well as increased reliance on shared services and outsourcing, will further reduce costs and achieve greater leverage.

With regard to industry consolidation more than 60% of our respondents told us they had observed moderate consolidation over the past two years. Going forward more than 30% of our respondents felt that there would be significant consolidation over the coming two years. The challenge of post acquisition change in a people-oriented relationship business should not be underestimated. Please see Fig. 3.

Figure 3: CEO perspective

In your opinion, what level of consolidation has there been in the private banking/wealth management industry over the last two years? What do you predict the trend will be over the next two years in your territory?



Significant implementation challenges and investment are required to refocus the business on delivering client value

Survey respondents have a clear idea of how their business models must change. They have identified gaps that exist between their current business models and those they will need for the future, as well as the barriers to bridging these gaps. We have analysed these in terms of differentiation, brand and reputation, client service model and approach, and provision of comprehensive wealth management advice. As a consequence of the financial crisis, capital strength remains an important source of differentiation. We asked respondents to rate their current state across a range of capability dimensions, as well as their desired state in two years. The following illustrates where changes were identified. Please see Fig. 4.

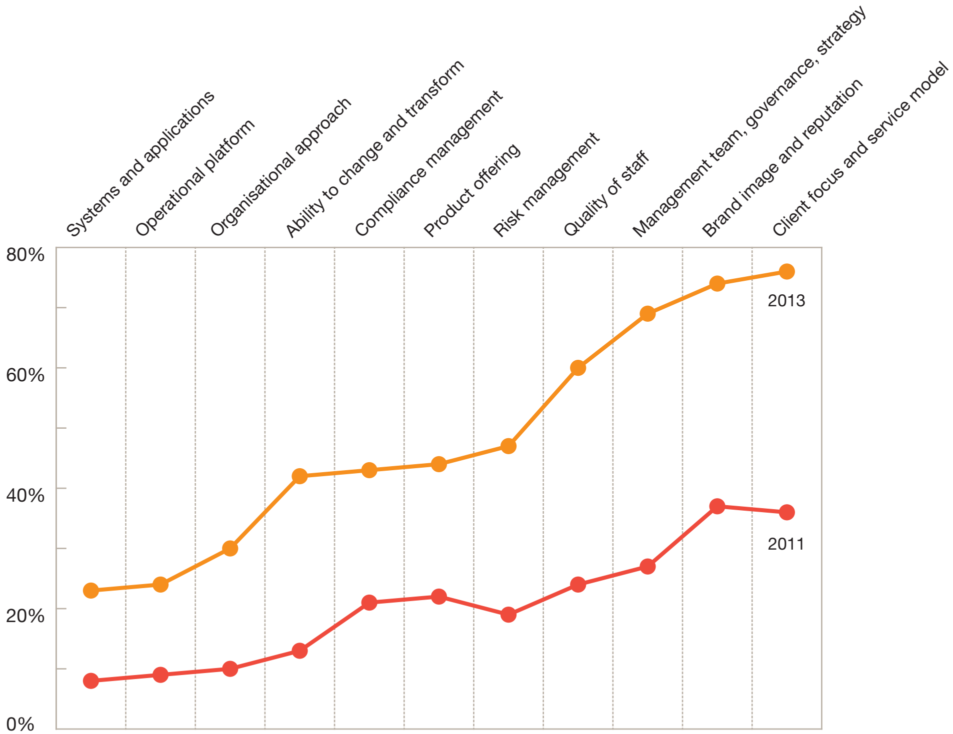
In terms of their current business models, just over a third of respondents indicated that they had reached a leading or high performing state in their management team approach, governance and strategic priorities, their client focus and service model, their achievements of KPIs and their brand, image and reputation.

In terms of their future aspirations respondents are targeting significant improvements with two thirds of respondents seeking to be leading or high performing in these same business areas within two years. This implies a considerable challenge in terms of bridging gaps to the desired future state. It also demonstrates a positive desire from the industry to move forward and achieve higher performing business models.

In terms of the operational platform, only a relatively low proportion of respondents, approximately 10%, viewed themselves as currently being leading or high performing in terms of operational platforms, systems and applications and organisational approach. In terms of respondents' desired operational target state in these areas, the gap to bridge was much reduced with only approximately 20% of respondents desiring to be leading or high performing in these areas over the same two year period.

Figure 4: Organisational self-assessment 2011 and 2013

Please rate your organisation's current state in the following areas, and your desired target state in the next two years.



Based on respondents' answers to the survey, we analysed leading and high-performing aspirations from current to future state across a range of business areas and functions.

In terms of planned business and operational model improvements, there is an operational lag. Unless further investment in the operational model and crucial infrastructure areas is undertaken, respondents' aspirations for business model change will not be delivered.

This may indicate a potential lag in the realisation of planned business model and improvements from their supporting operational models, unless further investment in crucial infrastructure areas is undertaken.

Respondents identified a mix of barriers to achieving desired changes, some of which were within their direct control and some of which were not. The primary barriers to change for those matters within their control were identified as insufficient budget, a shortage of talent, systems, organisational and process complexity and front office resistance to change. Those barriers outside the institutions' direct control were identified as increased regulatory demands and poor market and economic conditions. This implies a need for wealth managers to better allocate scarce budget and direct talent to address the most significant barriers.

We also asked participants to rate their ability to change and transform effectively. Currently only 13% rated themselves as leading or high performing in this area. Within the next 2 years 42% are targeting to become leading or high performing in effectively delivering change. This is a considerable step change from their current performance level. Historically the industry has found the implementation of change to be difficult, and this would imply significant challenges to moving forward. What is clear is that those private banks and wealth managers who successfully implement sustainable change will be tomorrow's leading institutions.

PwC viewpoint

Finance needs to deliver financial control, drive efficiency and give value and insights

Maintaining the status quo in Finance is not a formula for success and the leading Finance function of the future looks very different to that of only a few years ago.

At a time when wealth managers are evolving, the Finance function has an important role to play. Finance has unique opportunities to help the business adapt. Through monitoring and reporting on the institution's performance, it can foster understanding of what is steering profitability at the client, product or channel, and deliver valuable insights. But does Finance really have the tools and the people it needs to do this? Furthermore, does it have the data to give a complete, accurate and timely picture?

Failing to fulfil potential

Too often Finance is not fulfilling its true potential in providing insight as a partner to the business and therefore helping wealth managers adapt. When Finance has been tasked with doing this, its role has often been tactical. We believe delay in preparing for the changing wealth management market is a significant risk. Firms must move swiftly to build next-generation Finance functions that will not only be able to give the basic reporting information, but also give firms sufficient transparency into their businesses to understand the dynamics of ongoing change. Waiting for regulations to be finalised may seem prudent but cannot be wise. Cascading, ad-hoc reporting solutions only mask and compound the problem, and should be confined to dealing with exceptional issues.

Finance should take a stronger lead in helping to define the business-wide approach to change, making sure that compliance and control is effective and that the business has the information it needs to move forward. They should use lean manufacturing techniques to engineer their own Finance process change, focus on culture and behaviours to improve teaming, and assist operations and technology functions in determining what they should and should not do and how they combine work with other functions and measure performance.

Future role

Finance needs to get closer to the business, and take a more active role in decision-making and strategy. The day has passed when finance organisations could rely on last-minute fixes or layer upon layer of somewhat interlocking short-term solutions. New regulations mean that a new data-centric world is already here in which Finance must play its part for the business to succeed.

'Operationalising' Finance in the way we have described is critical if it is to evolve without lurching from one crisis to another. By planning ahead, Finance can maintain day-to-day control, standardise processes and make sure it has the needed flexibility. If Finance is not flexible, this can deprive an organisation of the data and information it needs to run its business and take advantage of new opportunities. Using standards and rigorous governance that avoids organisational sprawl are all important disciplines. Disparate globally distributed systems and processes require more controls and offer more opportunities for things to go wrong. Difficulty in isolating root causes makes improving controls difficult and effective reaction to business challenges and opportunities impossible. This is especially true in the global world of distributed centres, outsourcing and shared services, with divergent operating models and often unsynchronised service level agreements.

To address data problems, firms must be sure of data's integrity, from the point of capture throughout all stages of the processing cycle. Establishing a "golden copy" of data near the point of capture can reduce the number of data repositories. Implementation of shared services, and internal or external utilities, could be an option. In any data-processing model, end-to-end streamlining of processes is essential.

Conclusion

Finance functions should deliver insight to the business as a partner enabling change. Departments should focus on acquiring the necessary human capital and giving the right training and tools for these people to be successful. As organisations transform themselves, special care must be taken to develop, protect and establish the right culture. Development of skills, capabilities and infrastructure must be proactive. Finance technology and data management must be built around core systems; not add-ons or manual intervention. As organisations grow, communication formats and interfaces have to be standardised.

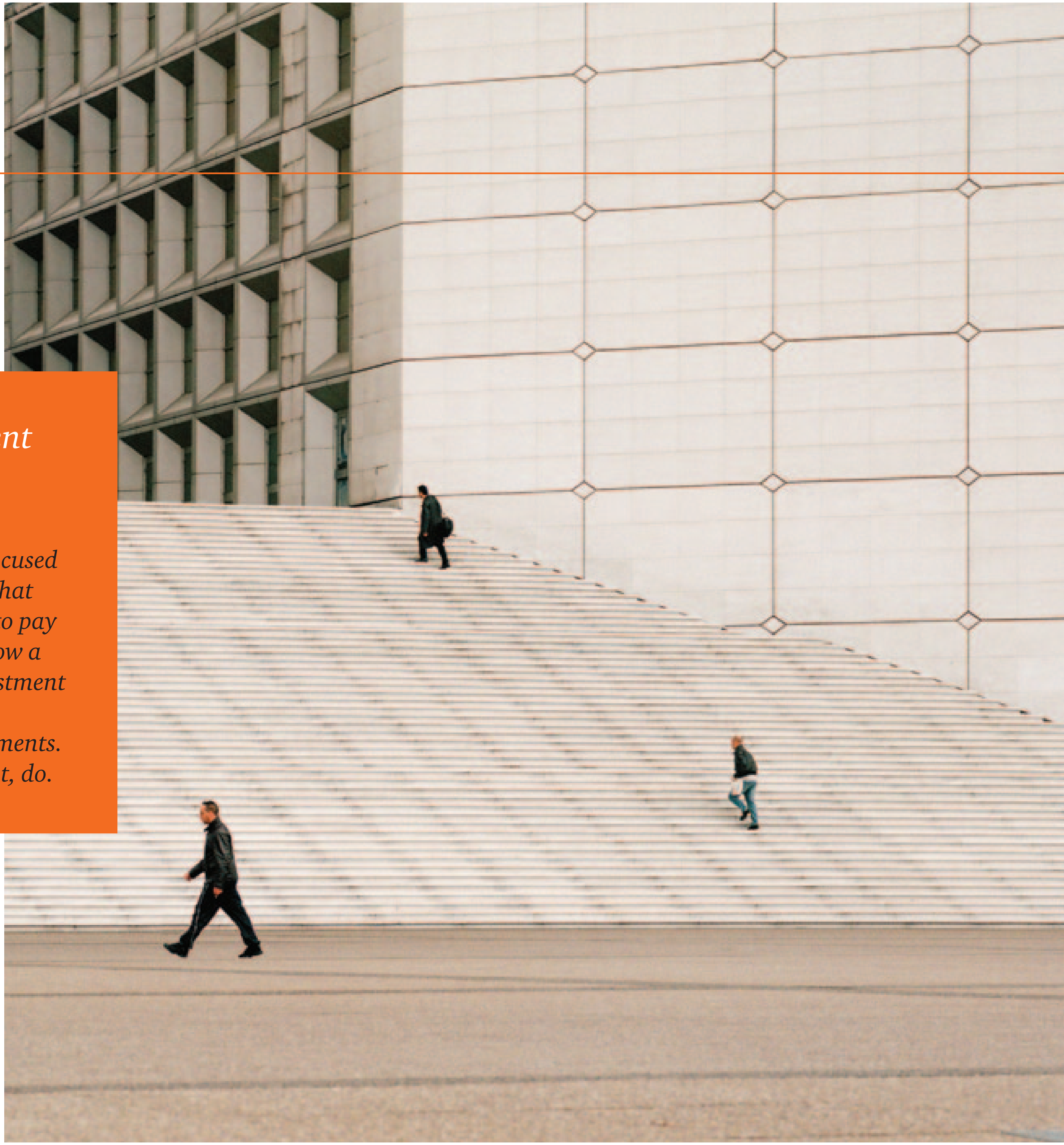
Maintaining the status quo in Finance is not a formula for success and the leading Finance function of the future looks very different to that of only a few years ago.

02

Markets and clients

Significant and sustained wealth management growth is expected in emerging markets.

Markets are changing and respondents believe there will be movements in global financial centre rankings. Clients are focused on value. The industry must cater to clients' perceptions of what value added really is for them and the price they are willing to pay for it. Collaboration and more effective referral leverage is now a necessity, particularly by those with retail, corporate or investment banking arms. The industry can no longer be all things to all people and must focus its energy on specific markets and segments. Institutions must be crisp around what they will, and will not, do.



Wealth management's centre of gravity is shifting towards emerging markets

Revenue growth here is far outstripping that of developed markets, and Singapore is expected to be the leading global wealth management centre in two years. Across geographies, clients are focused on value, which they now define as quality of overall service rather than simply investment performance.

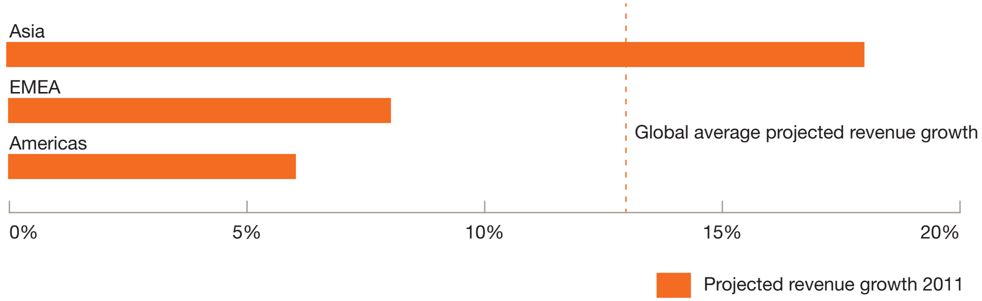
A changing wealth landscape

The consequences of the financial crisis and important changes in clients' attitudes have spurred a fundamental shift in the wealth management industry. The wealthy now think in a different way about those that provide their financial advice.

Clients have become much more sceptical about the merits of financial markets in general and the wealth management industry in particular. The global economy has evolved and is creating and offering access to wealth in new and different ways and in new areas. We see this changing the wealth landscape and creating new opportunities in markets and segments that were previously untapped. These new trends are forcing wealth managers to take a fresh look at their business models, market-entry strategies, client identification, and retention programs, and make some unconventional changes in order to stay competitive in the area of client value management. Wealth managers must now focus on anticipating the shape of change and responding quickly in order to position themselves to take advantage of new opportunities. Please see Fig. 5.

Figure 5: Global average projected revenue growth

Based on respondents' answers to the survey, we analysed their projections for wealth management revenue growth for 2011.



Current performance remains under pressure but, longer term, the prospects for the industry remain bright.

Twin-speed onshore and offshore markets are now developing

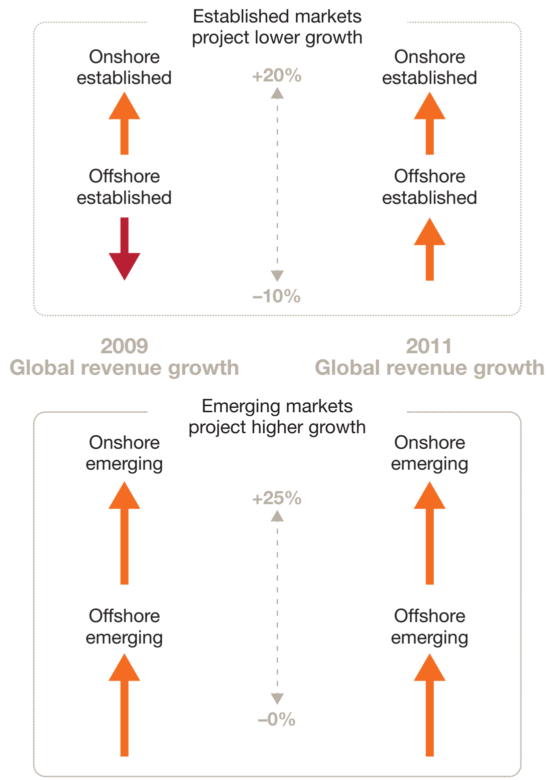
As we planned the questions for this survey, we anticipated that offshore market revenues would shrink and onshore market revenues would increase.

Respondents showed that offshore revenues are rising. What we had not anticipated was that continued rapid growth in newly emerging markets would dominate all other factors. Our analysis showed that for both on and offshore markets, it is now important to further distinguish within them between established and emerging markets, since growth rates differ between them. This reveals a need to adapt strategy and approach to local markets based on maturity. It also requires confronting local market players or allying with them. Please see Fig. 6.

Our respondents told us that the contrast between actual and expected rates of recovery in established and emerging markets was a challenge. They found that regulation was causing established emerging markets to recover more slowly than newly emerging markets, whether they were onshore or offshore.

Figure 6: Marketplace maturity and revenue growth

Based on respondents' answers to the survey, we analysed their revenue in terms of their projections as to growth.



Categorisation of onshore and offshore status is dependent on how our respondents classified themselves and their market participation.

Global markets and client connectivity

The world is now more of a global community than ever before. This is true of the wealthy more than any other market segment. Dramatically reduced costs of communication together with the ascendency of social networks and innovative personal communication technologies, e.g., social networks, tablets and smart phones just to name a few, have caused this to occur. These breakthroughs have given both established and emerging markets a cost effective means to share information and participate in change at a geopolitical level. They have also resulted in greater transparency into the global markets for all players in the wealth management business. One result of the new enhanced global community and inter-connectivity is that many more clients now come from emerging markets. With the growth in new wealth this is causing a shift in the relative mix of established, traditional and newer emerging financial centres.

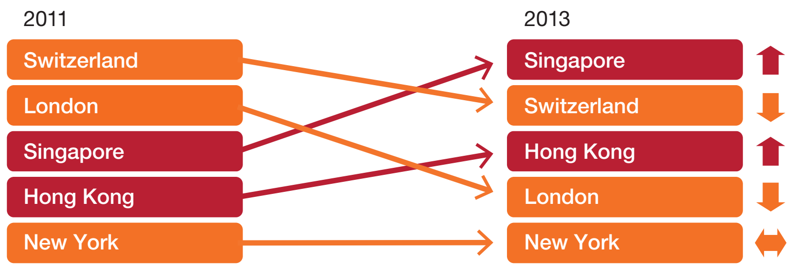
Singapore challenges for the top spot

Globalisation of wealth and changes in the market resulting from demographics and, increasingly, regulation are having an impact in creating fast rising non-traditional centres. For many years we have asked respondents to indicate which financial centres they viewed as the main wealth management and private banking hubs. The historical answer was Switzerland, London, and New York. This is now changing. Please see Fig. 7.

This year we asked our ranking question again, but we also explored the impact of increased regulation. In response to increased regulatory pressures, our respondents see Switzerland, London, and to a lesser extent New York, all being challenged by the rise of Singapore and Hong Kong in the coming two years.

Figure 7: Multi-polar financial marketplace

Given increased regulatory pressures on offshore centres, which do you believe are currently the top five international financial centres which are the most successful now and in the next two years?



Participants believe the centre of gravity for wealth management is moving and established centres are under pressure from emerging markets.

We are now in a true multi-polar financial marketplace and offshore participants will need to adjust their networks to meet increased competition.

Respondents also indicated that increased competition is leading to a new order in the evolution of traditional and new primary and secondary centres. Miami stood out as a strong up-and-coming booking centre and gateway to a vibrant Latin American market on a regional Americas basis. Please see Fig. 8.

Respondents' networks continue to focus on the more traditional centres while continuing to develop their presence in emerging centres.

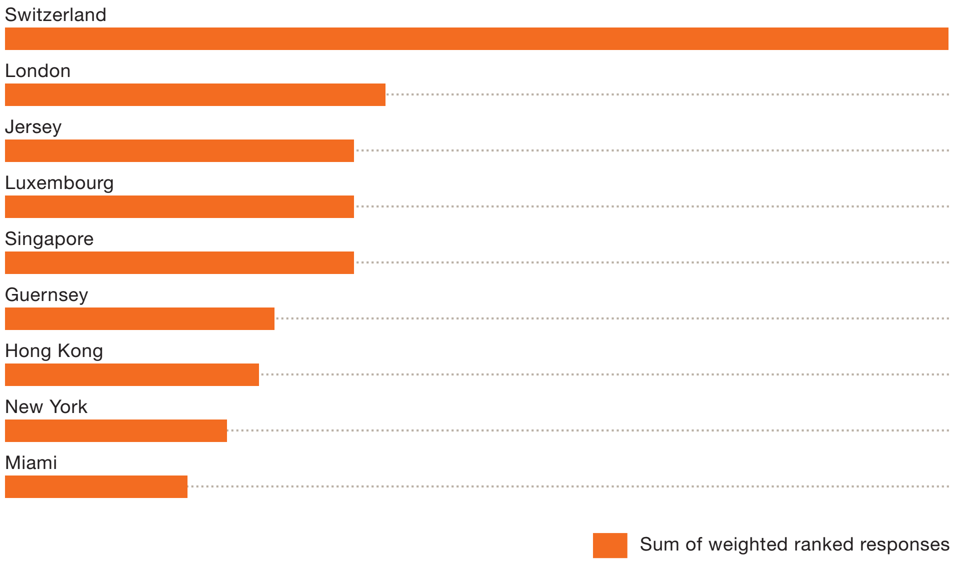
This underscores the fact that it is now more important than ever for those serving the wealthy to have an appropriate international network focus as well as effective methods in place to leverage global service delivery capabilities across existing and new markets, while staying abreast of changing regulatory environments.

We asked offshore respondents about the regulatory and tax impact on their traditional offshore assets and they indicated that almost 90% of the assets they managed were not perceived to be at risk despite increasing tax and regulatory pressures, which illustrates how the offshore players have successfully diversified away from their dependency on traditional offshore clients.

We are now in a true multi-polar financial marketplace and offshore centres will need to adapt their capabilities to meet increased competition.

Figure 8: Offshore booking centres

If offshore, where are your top three offshore booking centres located, i.e., centres where assets are booked?



Client segmentation is now more critical

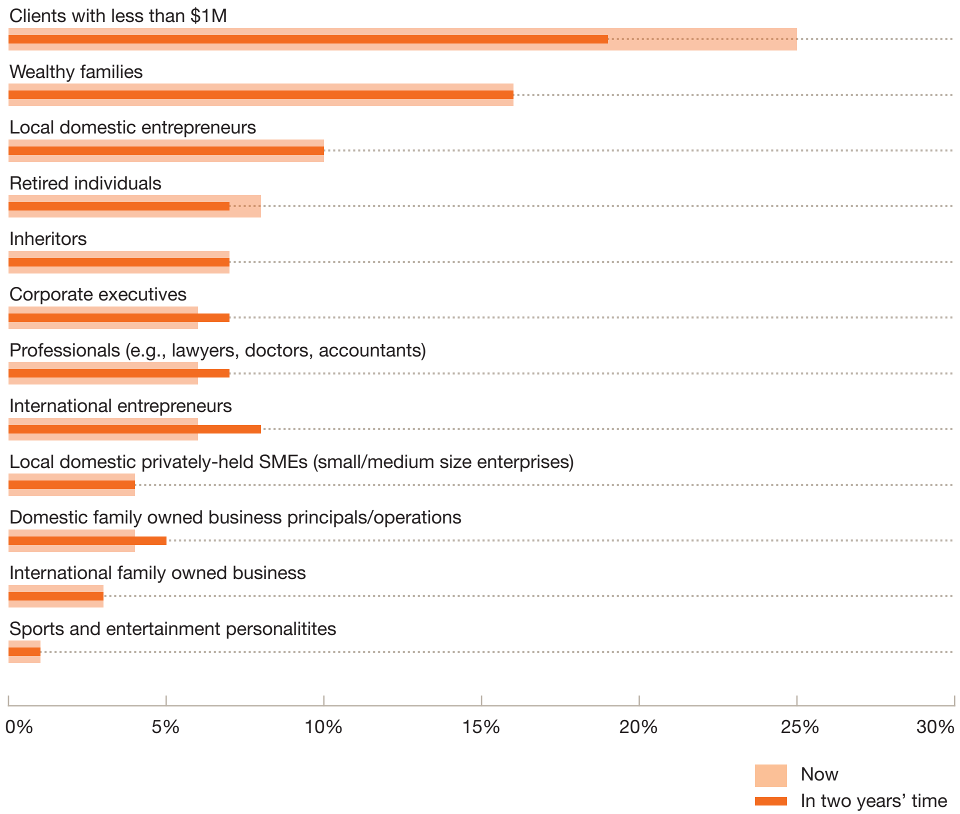
In order to address different markets, wealth management organisations need to segment clients into distinct groups based on affinity, understanding their specific needs, behaviours and characteristics. Doing so will make wealth managers better able to support these clients in pursuit of their wealth management goals through better client value management. Please see Fig. 9.

This is distinct from the more traditional product push seen in many organisations, and applies both to the different categories of the emerging markets and the more established onshore markets. Segmenting clients in this way is a natural preparation for the partner-advisor role and successful longer-term relationships. The ability to target profitable client segments on a long- and short-term basis will become a key differentiator among the leading players in wealth management.

To be successful in emerging markets will require addressing fundamental change and being agile. It will require changes to the client-advisor relationship, investment in enabling technology and a new perspective on how to view emerging markets. Wealth managers need to understand the behaviour, lifestyle and other personal insights of individuals in specific segments of wealth.

Figure 9: Segments and sub-segments

Please indicate the current breakdown of your organisation's client base. What do you anticipate the breakdown to be in two years' time?



Client service replaces investment performance as the critical quality

Respondents report a fundamental change in client behaviour. The question of why clients leave an organisation provides an interesting insight into this. Investment performance was not the primary reason cited. Often the reason for client loss is a result of poor customer communication and service, as well as an overall lapse in client relationship management. Historically, performance was king, but our respondents are signalling that service is now the differentiator in dealing with the more empowered and self-directed wealth client of today.

Adapting to this change requires far more than just improving brochures, technology and tools. It requires better client value management through understanding the buying behaviour of the wealthy and altering the market-entry strategies of private banks and wealth managers accordingly. Clients have become energised and empowered and are demanding that their relationships should be structured, maintained and managed in different ways. Based on what our respondents have told us, they have challenges in responding to these demands and configuring, compensating and equipping teams to serve today's wealthy.

To succeed in this new age, firms must have more effective client relationship management tools to help better identify new clients in order to further develop relationships with them and to maintain these relationships in the long-term. In the years leading up to the financial crisis, traditional wealth management firms often focused primarily on selling products. This led to somewhat passive client relationship management at the expense of forming more intimate, longer-term, value added and stickier client relationships.

When the crisis tested these products, clients often found they had unexpectedly taken on large amounts of risk and, most importantly, could not reach a trusted advisor. These clients were then either easily attracted to other firms or lost a great deal of trust in their advisors, their firm and wealth management in general. Some clients have left the marketplace altogether and retreated to the sidelines. They have only recently begun to return, but their trust is fragile and they now have far less loyalty to those that serve them. Poor service in the past has clearly left scars, causing service to dethrone performance as the top value sought by clients.

Clients are now more demanding of service and want to see clear value delivered to them.

Different client segments have recovered at different rates. Our respondents told us that there were profitability sweet spots:

- US $500 thousand-to-US $1 million segment
- US $1 million-to-US $5 million segment
- US $5 million-to-US $10 million segment
- US $10 million-to-US $50 million segment

The most profitable client segments were US $1 million-US $5 million, then the US $5 million-US $10 million band, followed by the mass affluent segment of US $500,000-US $1 million, and then the US $10 million-$50 million segment.

Looking back at prior surveys, family offices have now evolved to be a key business segment. This is now a high-impact part of many wealth managers' businesses. Larger players have increased their family office focus of late.

All these segments need a trusted wealth advisor to help them achieve their goals. Products must be safe and be transparent. Increasingly, clients are demanding that products be far more tailored to their individual risk requirements. Specific affinity groups continue to be areas of focus.

Respondents told us that they are seeing further sweet spots with specific demographic hallmarks and characteristics driven by lifestyle, gender and ethnicity for example. These create potential to draw clients through into other product service areas translating into better client longevity.

Pull-through revenue potential exists

Respondents clearly anticipate growing revenue from increased collaboration.

Executives within larger financial service groups expect to see more collaboration over the next two years. The key area for more collaboration is retail and corporate banking networks, followed by investment banking which has fallen due to client risk aversion. Greater emphasis was also expected on more collaboration in lending, information technology, asset management, trade finance and securities servicing.

Many of the global wealth managers among this year's survey respondents are cross-selling through referral management and introduction leverage more effectively than ever before.

At the lower wealth segments of the pyramid, large organisations have an opportunity to garner more referrals from their retail and commercial banking arms. Within the higher segments, larger firms have distinctive synergies with their investment banking arms, and offshore operations. Please see Fig. 10.

What respondents told us is that to more effectively leverage discount brokerage or investment banking capabilities for wealth management revenue requires scale.

Even already well-connected institutions identified opportunities for revenue growth by increasing the efficiency of their organisational interconnectivity. Small firms identified that they could also gain in potential revenue through synergistic relationships with larger firms and local players. Only the larger, more established investment banks and discount brokers seem to have the potential capability to be able to break down silos, and share information and business leads. Please see Fig. 11.

Figure 10: Cross business opportunity dimensions - connectivity

How well connected are your businesses from a cross-selling and pull-through perspective, and how well does your organisation share opportunities?

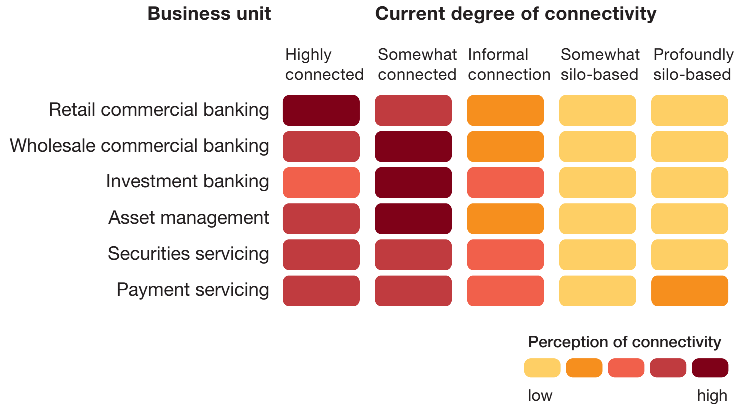
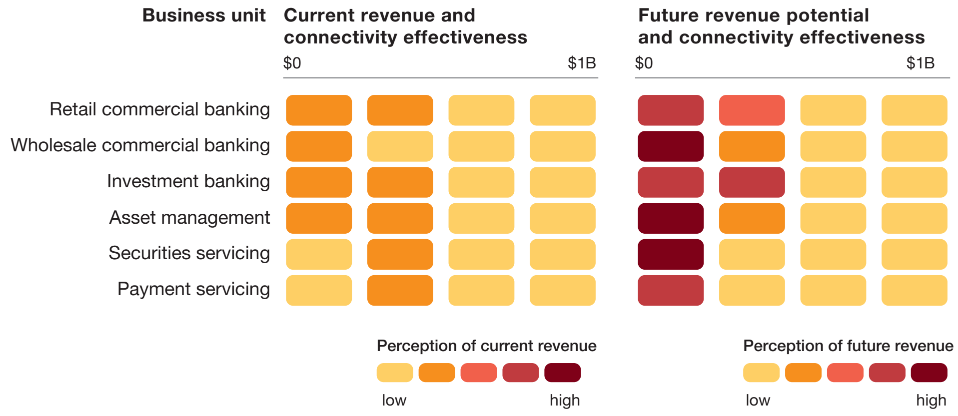


Figure 11: Cross business opportunity dimensions - current and future revenue

What is your estimate of wealth management revenue generated by cross-business lead flow, and how much do you estimate there could be if you could better share leads and opportunities?



Our studies have shown asset attrition on inter-generational transfer of more than 50% in many markets. Many players have yet to implement asset retention strategies. **50%**

Reducing the risk of inter-generational attrition

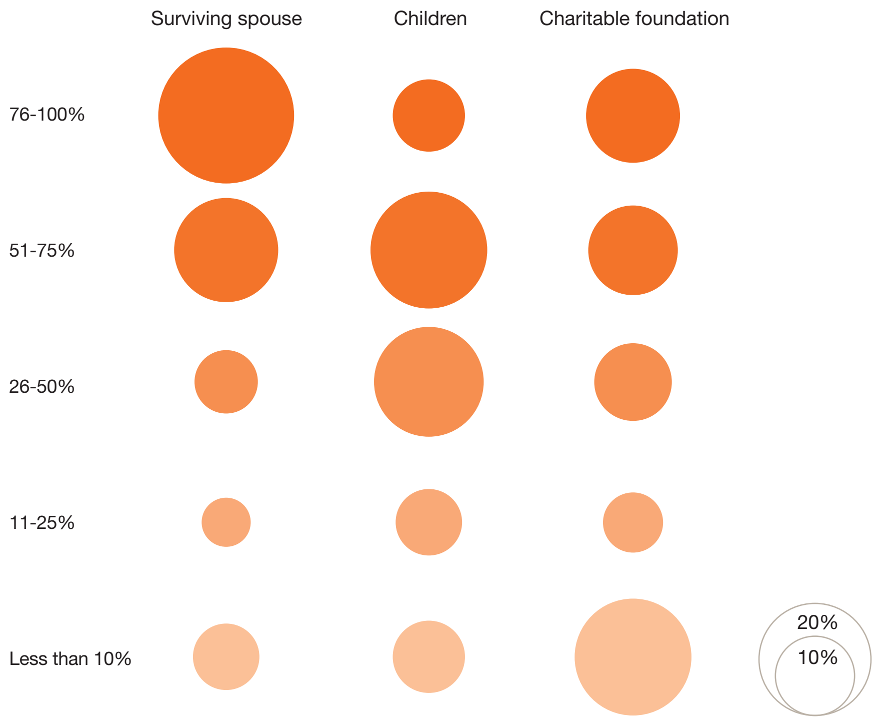
Inter-generational wealth transfer continues to present a significant risk of asset attrition. While this will never completely be eliminated, there is an opportunity for the nimble wealth management firm to take advantage of potential asset reallocation and movement.

The largest losses are attributable to wealth passing on to children of existing clients as well as transfers to charitable foundations. Knowing this, an advisor must have at its disposal the skills, tools, techniques and strategies to develop a long-lasting relationship with not only the patriarch and matriarch of a family but also their heirs and spouses and any vehicles of philanthropy. Our studies have shown asset attrition on inter-generational transfer of more than 50% in many markets. Respondents told us that creating loyalty across multiple generations of clients can significantly cut asset attrition. Understanding a family's time horizon, unique needs and challenges as they develop over time are all critical aspects of cross-generational asset retention. Clearly, changing technologies play a role in connectivity and profitability, but at the end of the day this all equates to effective relationship management.

Waiting until inheritance occurs before starting this process is too late. Targeting heirs early represents an opportunity to continue long-term relationships with a family. By better targeting them earlier, firms have immediate profit potential and the opportunity for cross-selling and pull-through from other areas. To secure these opportunities requires much more than just planning seminars and portfolio reviews with the next generation. It demands an evolution in the educational offering of wealth managers to reflect the goals and horizons of wealthy individuals and their families at an enterprise level. While inter-generational transfers can be a source of risk for a wealth management organisation, they also offer a rich opportunity to enter new markets and segments. A common sentiment among successor generations in every market is the desire to try something new which pushes the boundaries and often conflicts with tradition. Each generational cohort brings with it a unique set of values and perceptions. It is likely that wealth managers will have difficulty in institutionalising inter-generational strategies given their traditionally weaker ability to target next generation heirs early enough. With the ageing of the baby boomer generation, addressing this opportunity and handling these transfers in a more effective manner will become an increasingly significant part of the wealth management business which must be planned for and developed accordingly. Please see Fig. 12.

Figure 12: Inter-generational wealth attrition

On average what percentage of a client's wealth do you typically retain from their surviving heirs or foundations?



PwC viewpoint

Tailoring for success in emerging markets

The competitive environment for global wealth management has shifted. There are now a larger number of emerging markets generating wealth and these each require a tailored approach.

The accelerating shift in economic power from the developed to the emerging economies is dramatically changing the wealth management industry as banking power shifts from the G7 developed to the E7 emerging economies. Industry leaders need to take advantage of the opportunities this is creating. Wealth managers in developed economies remain in an environment of economic volatility with high levels of leverage, and face regulatory upheaval. Yet they have an opportunity to tap new sets of clients in the emerging markets.

Specifically, the SAAAME regions—South America, Africa, Asia and the Middle East—are becoming a new and vibrant extension of the BRIC nations—Brazil, Russia, India and China. All are creating wealth as a result of economic expansion. Moreover, the scope of emerging markets has widened to include countries such as Mexico, Indonesia, Turkey, Poland, Vietnam and Thailand. This expansion will let wealth managers increase their global client bases, as well as gain access and insight into foreign investment opportunities.

Not all emerging markets are the same
China and India are among the biggest with middle-class populations predicted to swell by hundreds of millions over the next decade. The new middle classes will seek out investment opportunities as their attention shifts from basic subsistence to stabilising and growing income. But countries such as Mexico, Indonesia, Turkey, South Africa, and Vietnam also offer significant growth prospects for foreign wealth managers. While political and regulatory risks can be significant in these emerging markets, the decline of state-owned entities, abundant natural resources and economic reform agendas will spur economic activity, establishing the conditions for wealth creation. Wise wealth managers will diversify their client bases while increasing their awareness of non-traditional, high-growth emerging market countries.

Understanding your target market
As wealth managers target these markets, they need to understand the population demographics. Although economic interest in the emerging markets is not new, the approach to servicing them is evolving. For example, although China and India have similarly-sized populations overall, China's is far older. China has approximately 118 million residents over the age of 65, nearly double India's population in the same age segment. India, Malaysia, Indonesia, Brazil, Mexico, and Vietnam have almost 60% of their population under the age of 30, with decades of employment ahead of them before retirement. The most profitable wealth managers will be those that meticulously tailor their international investment approach and service offerings according to market segmentation, making them able to adapt their services and capture greater profits accordingly.

When entering new markets, establishing and maintaining a strong brand is an important way to differentiate a wealth manager. Following the recent economic crisis, clients have become more focused on the net result and are not afraid to switch wealth managers if they do not see value. This is especially true in foreign markets, where the wealthy now have many more advisors from which to choose. Additionally, the larger, more established brands must concentrate on adapting to country and, in some cases, regional cultural and investment preferences, as emerging market high-net-worth individual profiles and behaviours can differ significantly even within a single country.

Different approaches
Global wealth managers tend to have an advantage in these markets. They typically benefit from their well-recognised brands, strong global resources, broad overseas product offerings and extensive client service experience. Yet they commonly lack in-depth understanding of local markets and face a shortage of local wealth management talent. There are also non-bank institution entrants, such as securities firms, which have the advantages of strong investment research, but can lack high-end client service experience and are generally not as well recognised by private banking and wealth management clients.

In contrast, local domestic bank entrants typically have a broad geographic coverage to achieve scale and a large customer base, but have found it difficult to provide a differentiated customer experience and to attract wealthy potential customers. This means that both the onshore and the offshore models for accessing emerging market countries bring dilemmas. While the offshore model allows foreign banks to leverage their global networks to offer a broad range of products, the model may not be suitable for all locations. In our view tailoring the model to local client profiles and behaviours is a must.

There are many opportunities for fast growth internationally, which the most profitable institutions will undoubtedly develop. Considering the wide array of economies, creatively tailoring service offerings, and establishing and maintaining a strong international brand will be the ultimate drivers of global success.

03

Client relationship managers and human capital

Top quality people are becoming more valuable, more difficult to source and more expensive to train.

Institutions must work harder to leverage their human capital investment by supplying their CRMs with appropriate tools and technology. Clear people value propositions are now essential as client relationship managers have reduced in record numbers. The industry is getting better at institutionalising client relationships with the organisation. Linkages between performance and pay are becoming critical.

In the aftermath of the financial crisis, the combination of wealth management's perceived growth and the tough new regulatory environment are creating significant tensions regarding people management

Recruitment, reward, retention, and motivation of staff have never been more critical for business success. Levels of trust between wealth managers and their clients reached new lows in the crisis, leading to increased scrutiny of Client relationship managers (CRMs) behaviour, especially as financial institutions have faced penalties for mis-selling. As a result, wealth managers are exerting more control over CRMs and have made many redundant. Over the past two years, 32% of respondents told us the main reason that CRMs left their organization was that they were asked to do so. Regionally, Asian respondents had the highest redundancy rate, with 52% of departing CRMs having been encouraged to leave. In EMEA, 33% were asked to go and in the Americas 17%. Please see Fig. 13.

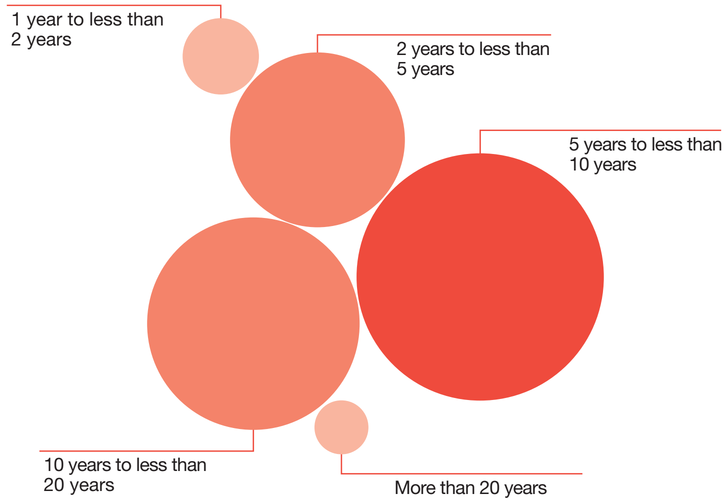
CRMs are a valuable institutional asset, and in today's environment it is more important than ever that they are managed proactively. They require the right environment, infrastructure, compensation and tools if they are to give high-quality client service and to create value for the client and the institution. Confidence in CRMs has fallen, at a time when they are critically important to clients. Almost 40% of our respondents rated their CRMs as average or below in terms of their ability to meet clients' needs. Set against our 2009 survey, where only 26% voiced equivalent dissatisfaction, this raises questions around CRM prospects.

Regulators are focusing on lifting CRMs' standards of behaviour to make sure they act professionally and in compliance with new regulations. Further, they are encouraging institutions to improve their processes for checking employee credentials and teaching them what will be expected, with particular emphasis on accountability.
To meet regulators' accountability requirements, some organisations are concentrating on equipping CRMs to deliver high-quality, transparent advice. Many wealth management firms already promise perfect-fit investment vehicles for any client. In today's environment, wealth managers and CRMs must continue to improve their understanding of clients' needs and circumstances by collecting better information. According to our respondents, this is becoming increasingly critical as regulators stress the importance of knowing your customer and providing products that fit investor suitability. From a client perspective, our research shows that clients are demanding more experienced CRMs and want more information transparency. While entry level CRMs may bring enthusiasm, this is no substitute for the experience that seasoned professionals bring.

Getting the human resources strategy right is more important than ever before. Firms need to concentrate on retaining quality talent, building a strong CRM support network and having a compensation strategy aligned with the firm's growth goals. As global demand for CRMs increases, client preferences and the characteristics of CRMs are becoming more specific. For this reason, identifying talent, retaining key staff and planning for succession is now essential.

Figure 13: CRM experience profile

What is the average length of service for CRMs in your organisation?



Acquiring and retaining talent becomes more costly and challenging

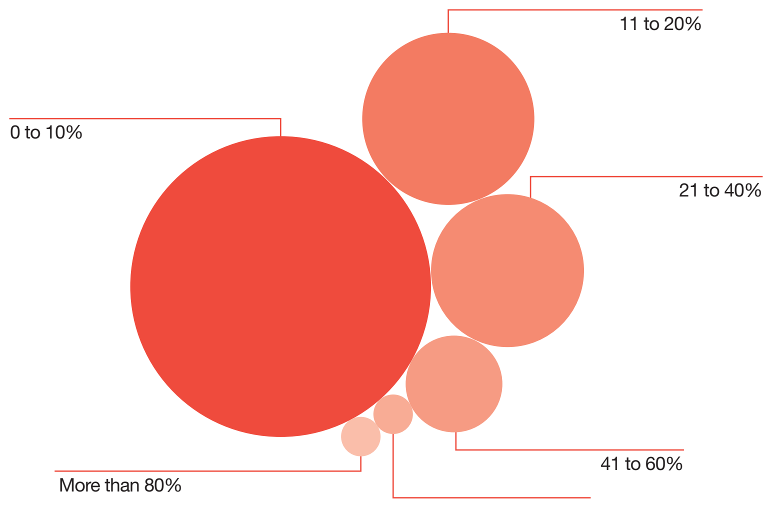
We asked respondents whether talent scarcity was inflating compensation and by how much? While compensation inflation for CRMs, front office management and product specialists continues, respondents indicated that they now have to pay legal, compliance and risk specialists more as well. This reflects the competition for experienced lawyers, risk and compliance staff required for success in an increasingly tough regulatory environment. Clearly, the cost of running a quality wealth management organisation is becoming greater. Wealth managers are also changing their compensation structures to link variable compensation to long-term goals and to extend fewer employees large long-term incentive awards.

Regulatory demands for CRM fitness requirements are likely to exacerbate CRM shortages. In April 2011, the Monetary Authority of Singapore released a new Code of Conduct requiring CRMs to take competency examinations or possess at least 15 years of relevant financial experience. Since approximately 45% of assets in Asia are managed by advisors with less than 10 years of experience, this will further increase demand for the shrinking pool of qualified CRMs. Other growth markets face similar pressures.

Wealth managers need to accept the short supply of CRMs and realign their growth strategies accordingly. Contrary to established practice, poaching from competing firms is no longer such a viable option. Clients have become frustrated by following their CRMs from one firm to another and going through multiple on-boarding processes, including know-your-client and anti-money-laundering experiences. Client loyalties are shifting to the firm rather than the individual. Some 77% of our survey respondents estimated that when CRMs leave only 20% of respective client assets leave with them. Further, a mere 2% of CRMs polled have managed to take more than 60% of assets with them when changing jobs. Please see Fig 14.

Wealth managers have increased controls and compliance oversight for CRMs. Additionally, clients are demanding higher-quality advice from CRMs with more investment experience, as well as data and analytics that provide transparency into their investment choices.

Figure 14: CRM asset outflow on exit



Tools and technology are key to increasing CRM effectiveness, but only 17% of respondents currently rated their front office tools as excellent.

CRMs are under pressure to give better advice

CRMs with experience can really be relied upon to give consistently high-quality advice. Consequently, wealth managers value experience far more than they did a few years ago. More than 60% of assets are managed by advisors with over 10 years' experience. But in some regions, there are simply too few senior-level CRMs to go around. In Asia Pacific, some 20% of assets are managed by advisors with less than five years of experience.

Wealth managers are concentrating on raising the quality of advice. Over 70% of the surveyed organisations have strengthened the advisory process, which may be correlated with the increasing confidence these institutions have in the quality of advice. Survey respondents told us that 41% of their CRM population is average or below average in terms of their ability to meet client risk and regulatory obligations. Organisations must alter their 'mindsets' by training personnel and creating the other competencies required to tackle compliance and suitability issues.

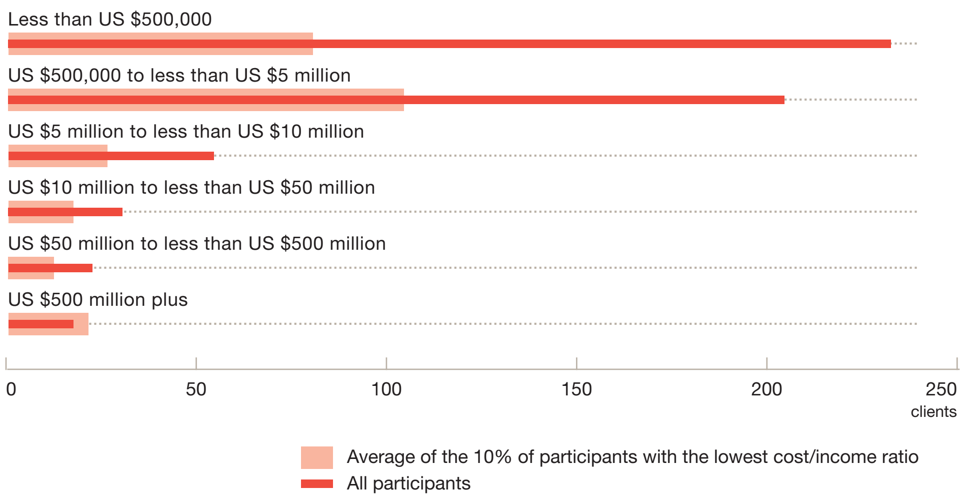
Good communication is at the core of high-quality advice between CRMs and their clients. Only a strong CRM support infrastructure, in terms of people and technology, can foster this. Institutions appear to realise that they should invest more in front-office tools to facilitate CRMs' client communication. Today, only 17% of our participants rate their front-office systems as excellent; most judge them only to be "fair". This suggests that CRMs do not yet have all the support they need to deliver quality, timely advice.

To be market leaders, wealth managers need best-in-class infrastructures to support their CRMs. Due to the increased regulatory requirements and related accountability standards, CRMs have a heavy workload and require efficient support structures now more than ever. Furthermore, clients are more demanding, asking for more information and higher quality data supporting investment decisions, as well as increased transparency into fees, product structures and risk. CRMs must become more productive and can only do so if they have effective tools and processes supporting them.

In spite of their greater administrative burdens, CRMs are still servicing similar numbers of clients as they were in our 2009 survey, although the most profitable performers continue to serve fewer clients per CRM. So that they can build client relationships and grow their business, CRMs are delegating administration to junior staff. However, junior staff often lack the skills required to monitor activities sufficiently well to make sure that CRMs meet the new regulatory accountability standards. Please see Fig. 15. This is another reason for investing in the CRM support network. To remain competitive and foster top talent, firms should invest in training and mentoring, especially for junior staff as well as efficient front-office support tools.

Figure 15: Average number of clients served per CRM across wealth segments

Based on our respondents' answers to questions about CRM deployment and cost/income ratios, we were able to analyse CRM density, (average clients per CRM)



Shifting talent strategy pressures

As in previous surveys, respondents told us that talent is a precious commodity. CRMs stay with their employers for an average of ten years or less. Identifying and retaining high-quality talent remains difficult. Seasoned professionals are more aware of their market value today than ever before as star performers retire. Additionally, as larger firms cut back, CRMs find themselves increasingly attracted by the independence and equity that often comes with being an independent or part of a smaller boutique. But scale still remains important, especially to clients. Many independent boutiques do not yet have the longevity to provide scale service to generations of the same family. Wealthy clients, with their multi-generation time horizons, are well aware of this. There is greater potential for institutionalising client relationships than ever before.

It is now critical for wealth managers to get talent strategy right. New regulations will affect compensation, creating another uncertainty in the battle for top-quality talent. Wealth organisations will have to introduce new incentives to motivate their professionals to effectively comply with regulations. Compensation changes driven by new regulations mean that wealth managers will be forced to monitor CRMs much more closely, as risk and reward become closely tied. Firms should consider whether their existing compensation models accurately track and reinforce appropriate behaviours.

Firms that do not review talent management strategies in the changing environment could encounter setbacks. Leading wealth managers recognise their talent pools are valuable assets and manage them accordingly with proactive approaches to human capital as a part of the core of their overall business strategy. To succeed with their growth ambitions, firms must think strategically about how to address talent gaps, align their staffing models and core competencies with plans for growth.

In wealth management, the client interface role of the CRM is being reshaped, requiring new skills and mindset change.

Wealth managers aiming to expand into emerging markets might need to assess their top talent and to shift their attentions from bolstering the status quo to building practices and teams in these fast-growing markets. To make this happen, wealth managers will need to understand geopolitical investment challenges and navigate cultural nuances. Traditional strategies of redeploying resources from developed markets to emerging markets are unlikely to generate sustainable local business.

70% of respondents have recently added regulatory compliance to the metrics they use to manage their CRMs.

70%

Mentoring

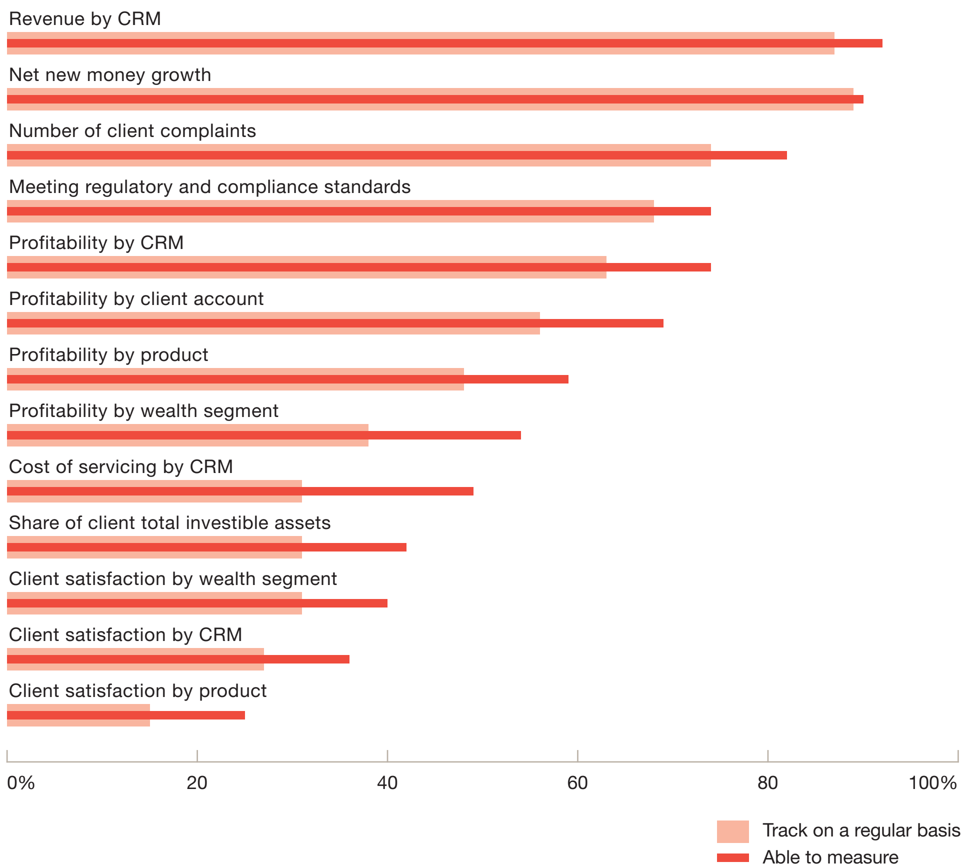
While it is entirely appropriate to mount expensive training programs, and competency frameworks with new CRMs, the answer ultimately is with the client. The wealthy are prone to want to be served by individuals they trust and to whom they can relate. Mentoring is an emerging approach in certain markets that we believe will become a characteristic of successful organisations in the future. How wealth managers leverage unique senior members of their teams to impart a lifetime of knowledge to very bright but junior professionals is an industry challenge and a potential differentiator.

Correctly motivating the CRM

As the role of the CRM changes, organisations should revisit their people management practices, particularly by re-evaluating how they measure CRM success. It is important that firms embed key performance indicators (KPIs) suited to the changing environment and CRM profiles into remuneration. We found that over 80% of our respondents indicated that the leading KPIs are traditional net new money growth and revenue by CRM. Regulatory compliance metrics such as complaint levels have now been added by more than 70% of our respondents. By contrast, in our 2009 survey fewer organisations linked compensation to meeting compliance goals. Until all institutions incorporate these kinds of metrics into CRM remuneration structures, it is perhaps questionable whether CRMs will appreciate the importance of risk management and compliance. Please see Fig. 16.

Figure 16: Key performance indicators

Which of the following key performance indicators are you (a) able to measure and (b) track on a regular basis?



Representative CRM infrastructure

One of the interesting things that our respondents shared with us was how they used different types of infrastructure, operating models, and approaches to help tailor their offerings to the needs of their clients across different segments.

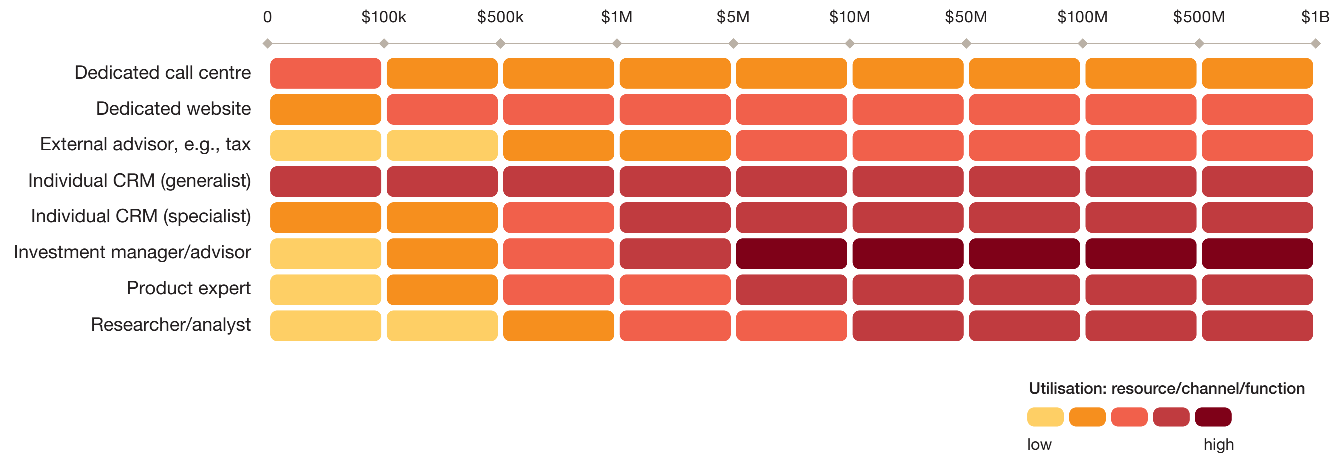
There is a mix of platforms including purely in house teams, generalists, and specialists along with significant electronic connectivity over the web, such as by smartphones and tablet.

The concentration of dedicated teams and infrastructure was correlated to the higher levels of the wealth pyramid. This included dedicated generalists, product specialists and investment managers/advisors.

Lower tiers tended to be focused on higher degrees of automation, call centres and the web for maintaining client connectivity. Please see Fig. 17.

Figure 17: Client service infrastructure and approach

Based on our respondents' answers to the survey, we analysed their concentration of CRMs, specialists and client access channels by wealth tier.



The portrait of traditional CRM support and client service infrastructure is changing with enhanced teams, additional channels and specialised services for different wealth segments.

PwC viewpoint

The sleeping giant awakens: Clients now expect clear value from those that serve them

The need for institutions to improve their client value propositions is all about client perceptions, which directly impacts competitive positioning.

For many years private clients have been relatively easy to manage. They came and went with some predictability and provided private banks with steady, healthy margins. Recent times have changed all that and wealth managers and private banks, including historically trusted brands and organisations, have found themselves under pressure from those they serve.

Clients now expect more across every dimension of their relationship. The fundamental nature of the value proposition offered to the wealthy has been shaken to its core. Findings from our recent private client surveys paint a mixed picture which cannot be ignored.

Below are a few examples of the voice of the client:

"When the market and my investments were crashing, nobody called me..."

"They're always available, reliable and trustworthy and capable of assessing my private situation...and very good at interactive communication."

"I was advised to invest in products that I should not have...I may even have been mis-sold."

"Convince me I am getting value for money. Sometimes I don't feel the investment consultant I speak with knows as much about investments as I do…I just don't feel like I'm getting value for money."

"They need to be a lot more proactive. They're great when I initiate contact, but I would have expected to have seen a lot more interest."

"More transparency. I would like to know what the bank's position is and what money they make. I have no problem with them making money, I just want to know how much."

"I see your name in the news for all the wrong reasons. I always thought you were at the forefront of things, using sophisticated technology to assess risk... ultimately I think I have been paying you a lot of money for nothing."

"The service is very efficient...on several occasions they have arranged short-term financing with little notice, on reduced timeframes, and without much fuss..."

How much value is being delivered?
The erosion in client portfolio value, coupled with instances of less than perfect responsiveness to clients, has resulted in growing questions around how much real value is delivered. In the information age, when significant numbers of potential clients are 'doing it themselves', this a strategic challenge in terms of industry profitability and sustainability.

This need for the wealth managers to 'up their value game' is all about clients' perceptions, which directly impacts competitive positioning. Leading industry players have already embarked on a journey to transform their client value propositions, and to understand what clients really value and how much they really value it.

Having analysed the results of thousands of high-net-worth value surveys, we conclude that clients perceive value in different ways and that wealth managers must understand trade-offs in value in order to set prices. We see increased use of advanced economic sampling and analytic techniques, such as conjoint analysis for proposition testing within client bases, to identify value drivers at specific sub-segment levels that influence a client's willingness to pay for advice and other services.

Adapting pricing
Client service is currently eclipsing performance as the top priority of the wealthy. Wealth managers will need to improve the quality of client experience, across all aspects of the service delivery infrastructure. Quality service is something the wealthy are willing to pay for, but only if promises are kept and service is delivered.

Combined with changes in population demographics and increasing commoditisation of product, in the clients' eyes, we believe pricing will need to become more sophisticated in future. We already see some institutions exploring different opportunities to optimise the economics of their value chain and to adopt more transparent fair-value pricing practices.

The awakening giant brings a strategic challenge for the industry, but also an extraordinary opportunity for those who can transform their business and gain competitive advantage. We see leading institutions forging a new client value proposition, which provides metrics and measures on client promises kept and value delivered.

04

Operations and technology

Cost pressures are severe and much more effective approaches to cost management are required.

Respondents are at different stages of their operational evolution. Many continue to run legacy systems and manual processes. Technology budgets are being directed to better support client relationship managers and the front-end client experience.

Technology budgets have risen in the past two years for 60% of our respondents and 42% of respondents have increased their operational budgets.

60%

42%

Participants are at different stages in the technology investment cycle. Most are now making transformational investments to replace legacy processes and systems, aiming to achieve significant productivity gains and to comply with new regulations. Some are pulling ahead

Many survey respondents are in a major technology investment cycle at a time when cost pressures are increasing. They are addressing operational inefficiencies caused by having legacy platforms and, for global players, the issue of having different technology platforms across multiple geographic locations. The catalyst making wealth managers invest in technology now is a combination of changing client demands, new regulations and a legacy of under investment.

More than a quarter of the industry still operates older systems, augmented by manual processes, which are often backed by spreadsheets and simple desktop databases. Aside from inefficiency, these tend to have weak security, are outside business continuity frameworks and can become unusable when people leave. For the majority of firms taking steps now to resolve these challenges, the effort is at best described as work in progress.

Our survey shows that some wealth managers' technology infrastructure investments are beginning to pull ahead of others. A small number, 5%, report that they have already implemented new solutions, which are now stable. Some 22% indicate that they have adaptable efficient technology platforms and processes, and are beginning to make significant productivity gains. Respondents have been concentrating on improving their back and middle offices and will soon switch their attention to the front office. Over the next two years, there will be a significant improvement in availability of front-office client support technology in their organisations. Please see Fig. 18.

After a period of investment constraint, budgets are now being restored. Technology budgets have risen in the past two years for 60% of our respondents and 42% of respondents have increased their operational budget.

Figure 18: Budget priorities

Currently, what are your top priorities for when you consider allocating your operational budget? What do you think will be your top three priorities in the next two years?

Operating models are being transformed

Wealth managers are now refining their operating models to make it easier for businesses to grow, reduce costs through greater efficiency and become more focussed on client needs and meeting regulatory requirements. They are concentrating on standardising business processes and making sure they can respond to new legal and regulatory compliance requirements. Our survey respondents told us that in the next two years they expect to continue to direct their budgets towards supporting revenue growth and developing more client-focussed organisations. Some participants anticipated also having to deal with the operating issues associated with integrating acquisitions.

Corresponding with this quest for efficiency, respondents are seeking to centralise support processes, using internal shared services utilities, business-specific centres of excellence and outsourcing. Outsourcing is expected to rise in relative importance. Additionally, as wealth managers develop new onshore and offshore growth markets, they expect to adapt their operating models to meet new infrastructure requirements.

Expanding into new markets certainly brings new operating challenges. New legal entities based in different locations will need to share operational and systems infrastructures and coordinate outsourcing/joint ventures. Most importantly, they will need to take into account the varying regulatory requirements of different jurisdictions.

The wealth management industry needs to work on improving its track record of successfully implementing complex technology and operational improvements.

When looking at operations and technology initiatives, the devil is in the details. Service levels are critically important when clients and regulatory compliance are at stake.

Technology set to be used to improve client service

In the future, wealth managers plan to upgrade front-office technology to better support CRMs to give clients a better service and to evidence regulatory compliance.

In the next two years, improving technology tools for CRMs will be a priority, as will making client reporting better. Enhancing management information, particularly regarding compliance obligations and client information, will also rise in importance.

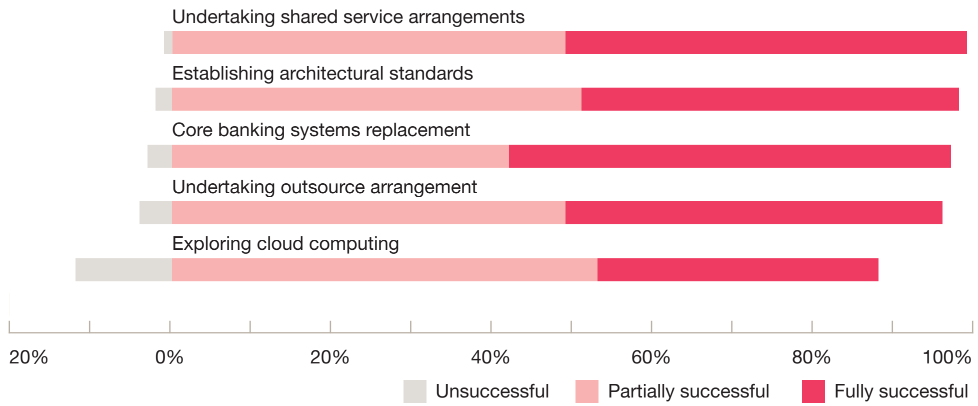
As smart phones, tablets and other digital devices become more common, respondents' utilisation of online and mobile channels will become more important. Providing clients with internet-based access to their information will require a combination of new and existing skills, channels, as well as embracing the capabilities of social media.

As wealth managers set about improving front-office technology, they are concentrating on software and databases, portfolio management/investment advice tools, client risk assessment tools and sales support tools. These tools often interface with advanced middleware and data structures. Increasingly, data storage and data transport architectures are becoming the secret of technology success. Outsourcing and asset servicing organisations are giving wealth management organisations the opportunity to save costs by using their tools and capabilities, rather than building expensive solutions internally. By leveraging their scale, outsourcing providers are offering significant savings. But the devil is often in the detail, and service level agreements are critically important especially when client service and regulatory compliance issues are at stake.

Our respondents have mixed views about the usefulness of cloud computing, probably due to unfamiliarity and potential doubts over data security. But we think its use will inevitably grow as technology providers and outsourcing organisations stress its value as a cost-effective medium for data storage and computing. Interestingly, respondents see the combination of cloud, data analytics and mobile devices as having potential for significantly enhancing relationships with clients. Please see Fig. 19.

Figure 19: Perspectives on operational and technology initiatives

For those operational/technology initiatives you have undertaken, please indicate how you would characterise the success of the results.



CRM technology skills need to improve

The rapid evolution of technology will challenge CRMs, who have typically shown little affinity for adapting to new technology. Consequently, CRM user/technical training will be essential if wealth managers are to exploit the potential productivity benefits of front-office technology investment. Only half of our respondents thought that their CRMs would be able to use technology properly, which means that realisation of anticipated benefits for investments will have to be carefully planned, monitored and tracked. Please see Fig. 20.

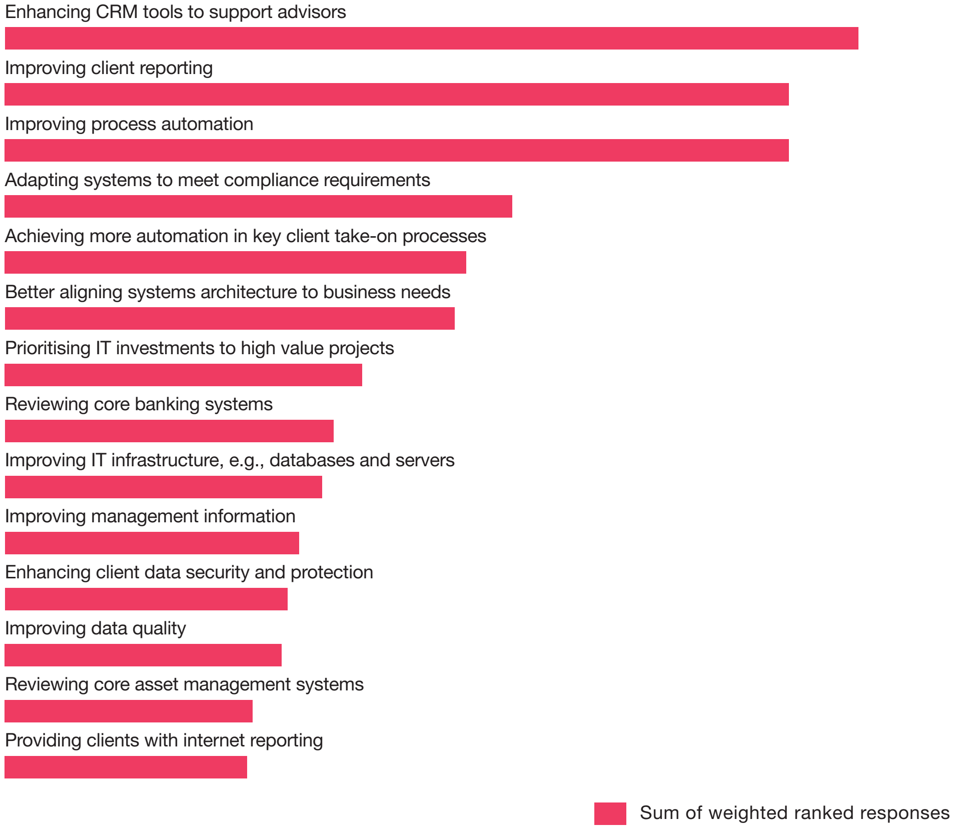
Some CRMs resist new technology, often fearing that their employers are seeking to control their client contacts. Yet the shelf life of a contact list is finite and our research shows that, following the crisis, client loyalty is now directed more towards the firm rather than the individual CRM.

Substantial challenges to overcome

Wealth managers have substantial technology and operating model challenges to overcome. Our respondents say their challenges include too many manual processes, the need for better alignment of technology with business priorities, and pressure for new applications and data management tools. Over the next two years, respondents anticipate technology's role in meeting risk and compliance requirements to be a challenge, while better alignment of technology with the business will become even more of an issue. This shows what a significant task the industry faces as it moves to make client service models more focused on the needs of the client and compliant with new regulations, while also upgrading the efficiency of middle and back offices and technology platforms.

Figure 20: Technology perspective

What are your current top three priorities for allocating your technology budget?



PwC viewpoint

Managing the past,
striving for future success

Delivering more business value from technology and operations is now key and requires prioritisation of investment.

The landscape of technology and operations is changing fast. Data management, networking, workflow, business intelligence, social media, outsourcing, and cloud computing are a few of the agents of transformation. Aligning strategic choices with operations and technology architectures will define priorities for scarce resources, and require balancing client challenges and regulator demands. In short, decisions made now will determine market leadership and business viability in the future.

Change can come from outside financial services. Wealth management can leverage supply chain and client experience lessons from other industries. Lean manufacturing and enhanced customer experience programs can be relevant across the wealth pyramid.

Successful operations and technology infrastructure presents four characteristics:

Business-led governance
This starts with a business vision based on the strategy for growth and profitability. Revenue-generating functions define long-term objectives. Infrastructure teams work closely with the business, including client relationship managers, to capture needs and translate them into the operating model's technology cornerstones. In doing so the teams outline the business's main activities, including functionality processes, regulatory and tax issues. They do this across front, middle and back-office infrastructures, as well as in key support areas on both an in-house and globally distributed (outsourced, co-sourced, shared service, or captive entity) basis. As a result, operational and systems infrastructure investment and change become more aligned to business needs.

Understanding options and approaches
With business and technology objectives properly aligned and operating in a structured governance model, wealth managers can select infrastructure and tool set fulfilment options that meet the needs, budgets, timelines, and considerations of competitive advantage.

These options have several broad themes: Single package solutions, best-of-breed applications, outsourcing, hybrid/incremental approaches to a solution.

Package suppliers continue develop products to cover more of the value chain and wider geographic regions. Few global wealth management institutions have found success with a "one-package-fits-all" strictly commercial approach. When using single packages, firms have experienced difficulties with different versions as implemented across multiple geographies. Using package solutions can certainly offload development and maintenance responsibilities, but it does not address standardisation. Many packages are at a point in their evolution where the underlying code has been so modified over the years, and across geographies, that it has similar behaviours and limitations to in-house legacy systems.

Many large banking groups with wealth divisions are pursing synergies and unified architectures, but results are slow. Institutions opting for "best-of-breed" by market have resigned themselves to the fact that their operations vary so much at local levels that no single package satisfies all local business and regulatory requirements. Increasingly, mid-sized players are opting to replace their legacy systems with integrated packages over an extended period of time. However, many of these have yet to fully solve cross-border roll-out challenges.

Outsourcing technology is attractive as it gives variable costs, ease of transition, reduced investment, operational risk reduction, and market entry. The increasing sophistication of outsourcing, including lift outs and joint ventures will take this model to new levels.

Testing is vitally important, along with effective governance, issue tracking and reporting. Clearly articulating benefits is essential.

Fact-based decision framework
Technology transformation requires accurate information, taking emotion out of the process and focusing on the facts in a structured decision framework with agreed weightings of key variables. Wealth management presents specific challenges that must be addressed: front, middle and back-office linkages, service levels, client privacy concerns, regulatory oversight and reporting are just a few.

Human capital—retaining the right expertise
Successful wealth managers benefit from retaining sector-specific expertise in core functions. Mere familiarity with infrastructure is not sufficient for making sure operations and technology are aligned. This requires an understanding of the functions' inner workings and the organisation's business dynamics. Clearly during any conversion or transformation, additional talent will need to be on hand.

Conclusion
Wealth managers will need to take a business-led, client-centric approach in order to implement change. Addressing any difficulties that arise will foster success. Those that can do this will be able to adapt their businesses to take advantage of new opportunities, while reducing costs and enhancing their reputations. Others will find themselves in a constant battle to maintain confidence across clients, staff and regulators.

Risk management and regulation

Managing risk is central to reputation.

Risk management systems and processes are being upgraded to provide integrated approaches to better align risk and value. Cross border standards, customer protection and transparency are anticipated to impact the front-end client experience in particular and profitability in general. Respondents continue to be concerned about the impact of increased regulation on operating costs.

Managing risk is central to reputation. Risk management systems are being improved to integrate management of risk and value creation

Effective risk management has become critically important to reputation and the brand. Wealth managers are making improved risk management a priority. They are upgrading risk management's role in the management of their businesses and better integrating it with value management by linking performance and capital efficiency.

In wealth management and private banking, reputation is everything. It is the foundation of trust, bringing successive generations to an institution for vision and advice. With the media continually reporting breaches of trust, insider trading and mis-selling, clients have become wary. They no longer take wealth managers' ability to manage their portfolios for granted but want evidence of competence. The relationship between wealth managers and their clients is under stress, being challenged by new forces, new constraints and confronted with new sanctions.

Compounding the challenges wealth managers face, government is imposing increasing layers of regulation. As regulatory costs mount, profitability is challenged. The new infrastructure, policies and procedures needed to comply with regulations all will have a cost. Furthermore, regulators are creating uncertainty by announcing the broad principles of some new regulations, but leaving definition of implementation to a later date placing pressure on wealth managers to respond to meet prescribed deadlines.

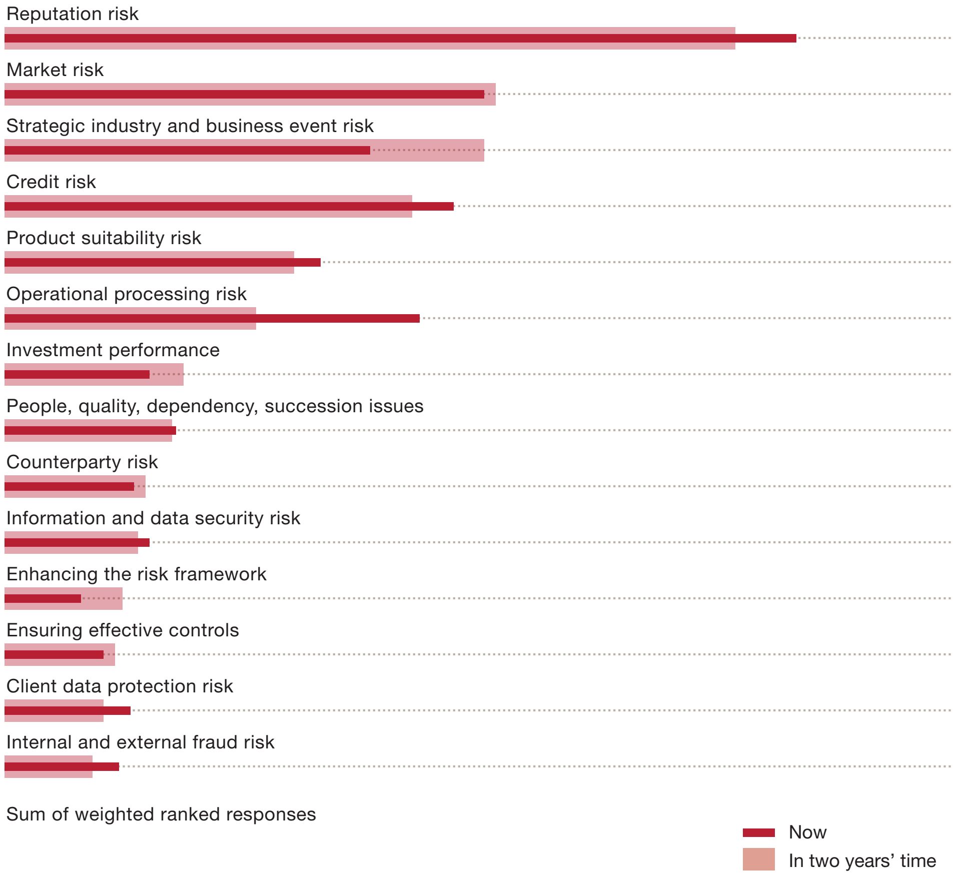
Protecting reputation becomes the main concern

Reputational risk has now become the main issue. Given volatility, market and credit risk remain important, but they now rank below reputation risk. Please see Fig. 21.

Interestingly, given recent pressures on the traditional offshore business and client trends in the sector, strategic industry and business event risks were also highlighted, as well as product suitability, which is increasingly a focus on the regulatory agenda.

Figure 21: Principle areas of risk

What are the top three principle areas of risk you expect to face now, and in two years' time?



An unsettling survey insight is respondents' view that market and event risks over the coming two years remain significant, reflecting the state of the global economy and inter-related aspects of geopolitics.

With regard to operational risk, increasingly, wealth and private banking firms are turning to shared service centres and outsource providers to help manage the cost of in-house IT and operations, which in turn means that controls assurance over such arrangements become increasingly important.

Overall, the risk rankings in our survey have changed significantly from our 2009 survey, showing how the private banking and wealth management world has had to respond to new risks. Reputation risk's top ranking for now and in the future contrasts with previous surveys when market, credit and client risk were pre-eminent. This suggests that the "new normal" in risk is different and distinct from the world of the recent past and that new risks have to be considered and mitigated. Please see Fig. 22.

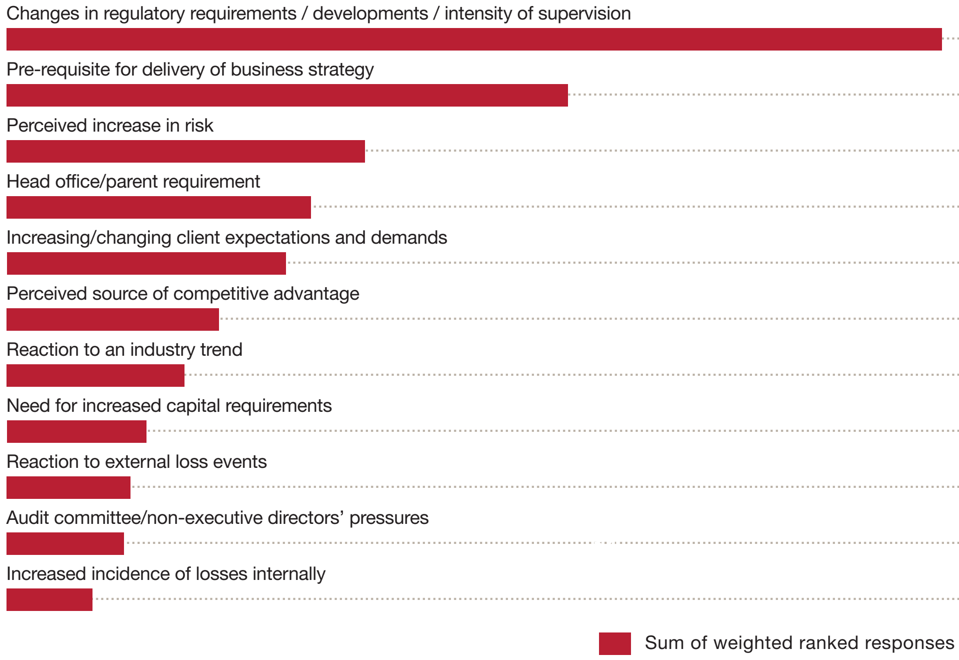
Survey participants are now focussed on addressing how changing regulation will affect their business strategy, and on managing a perceived increase in risk across the business

The main factors influencing respondents' approach to risk management are the need to manage the impact of new regulations and the increased intensity of supervision. Responding to this change in circumstances requires stronger risk management frameworks, standards, tools, and data. Wealth managers recognise that the bar continues to rise substantially in terms of the quality of risk management needed to deliver on business strategy.

Regulatory supervision along with the cost of risk management and the potential for direct regulatory intervention represents a rising implied cost on wealth managers. The pace at which regulation is being promulgated and implemented is making the situation worse. Wealth managers are getting little time to study emerging regulation and introduce a range of measures to adapt their business and operating models.

Figure 22: Top risk drivers

What are the top regulatory and compliance issues for your organisation currently?



71% of respondents have reviewed their risk management frameworks within the last six months.

71%

Such short timeframes raise tension, create expense in the form of temporary non-strategic solutions, while maintaining compliance and legal reviews. This means that organisations need to move quickly when details are finally released.

Respondents also believe that risk has risen across their businesses in some areas. The spectrum of perceived risk includes client data theft, greater requirements for offshore transparency and increased product suitability risk.

Risk management rises up the corporate agenda

While respondents described their approach to risk management as based primarily on regulatory compliance and preventing losses, they expect this to change significantly over the next two years. They anticipate concentrating more on stakeholder value, and integrated risk and value management, directly linking the performance of the business with capital allocation efficiency. They expect to have a sharper focus on risk quantification and alignment, which they see as helping to achieve business objectives.

The CEO is expected to play a greater role in risk management, as sponsor and promoter of integrated enterprise-wide risk management programs. They are expected to lead development of stronger risk-based cultures, take responsibility for regulatory compliance and provide the final sign-off at all levels within the business.

In terms of current priorities, survey participants are focusing on improving front-office controls. Addressing this area of weakness should build greater levels of oversight and control, backed by suitable documentation, in the area of product suitability and CRM conduct. Among other priorities, management oversight and back office controls remain important, especially as the regulatory compliance bar rises. As regulators turn their attention from the front office to the product development areas, respondents are strengthening oversight of the back office and extending product support capabilities, both internally and externally. Clearly, wealth managers are challenged with reacting to the regulations designed to protect consumers that are sweeping across the industry. These are intended to make sure that clients invest only in products that meet their objectives, and reduce the potential for mis-selling.

Reflecting tougher regulation, 71% of respondents have reviewed their risk management frameworks within the last six months. They see the benefit of stronger risk management, citing this as a means of enhancing and protecting a firm's brand and reputation. Additionally, they can see the advantages of greater risk awareness across the organisation. Even in a constrained budgetary environment respondents stated that new regulatory requirements must be funded. A lot of data collection and management initiatives are being launched under the guise of regulatory compliance. Improvements in quality control, leading to reduced errors, were cited as important objectives.

Interestingly, our research showed that clients have now started to judge wealth managers partly by the quality of their risk management and control environment. As well as more frequent contact with their CRMs, they would also like more evidence of effective controls. This is a big change from our 2009 survey. Our results show that 35% of clients request controls assurance reports, and 39% ask for evidence of performance track records.

Consumer protection and cross border legislation become burning issues

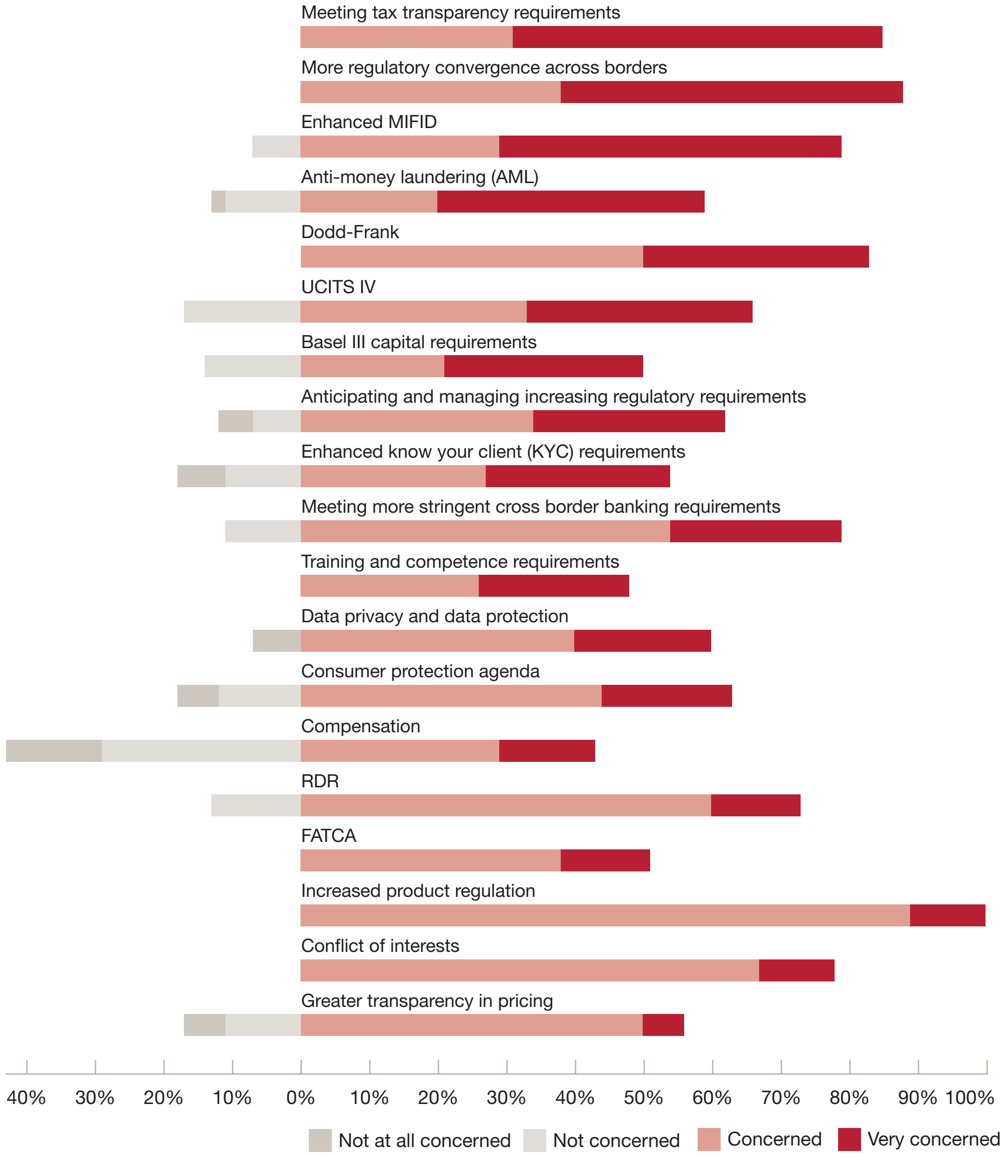
During the last few years, governments have introduced new regulations at country, regional (e.g., the European Union) and global levels (e.g., Basel III regulatory framework). The pace and complexity of regulation shows no sign of slowing down for the foreseeable future. So it is not surprising that respondents view anticipating and managing increasing regulatory requirements as a critical issue. For the first time, this affects every market facing aspect of their businesses, including their capital allocations and office locations. Please see Fig. 23.

In particular, respondents are concerned about the wider consumer protection agenda. They highlighted issues such as the revised MiFID directive and associated greater transparency in pricing, and the emphasis on training and competence requirements. In the UK, respondents highlighted the upcoming Retail Distribution Review, which requires that wealth managers charge for advice rather than simply taking product commissions. Similarly, in the US, the Dodd–Frank Act is an area of concern. The Act requires that hedge and private equity fund advisors register with the Securities and Exchange Commission (SEC) for the first time. It also regulates incentive based compensation, while introducing whistleblower incentives and new fiduciary standards for broker-dealers.

Anti-money laundering rules and enhanced know-your-client (KYC) rules, along with meeting more stringent cross-border banking requirements, fulfilling tax transparency requirements (including those of the US Foreign Account Tax Compliance Act [FATCA] and the Basel III capital requirements), are all increasing the expense of regulation. The incipient way that regulations are studied, drafted and released is fostering considerable uncertainty among wealth managers. Clients are unlikely to show much sympathy if wealth managers face regulatory challenges or penalties arising even from unintentional failures.

Figure 23: Regulatory specific concerns

For the current areas of regulatory and compliance focus, please indicate your level of concern in these areas:



The regulatory agenda is increasingly complex, challenging, costly, and will drive business and operations for the foreseeable future.

When we asked respondents how concerned they were about different pieces of regulation, they reported high levels of anxiety across many areas. Over 50% were very concerned about regulations specifically affecting the offshore market, such as observing tax transparency rules, coping with more regulatory convergence across borders and abiding by more stringent cross-border banking capital requirements.

FATCA is a particular challenge, requiring non-US financial institutions and non-financial entities to agree with the Internal Revenue Service (IRS) to perform due diligence procedures to determine if they have any US accounts. They must then report specific information about the holders of these accounts. Any institutions that have not entered into an agreement with the IRS by the end of 2012 will incur 30% withholding tax payments across their portfolios. So wealth managers need to scan all their legal entities and business structures to identify US account holders and US revenue sources, collect corresponding documentation, report detailed information to the IRS and withhold FATCA tax where applicable. Many implementation related issues relating to FATCA still need to be addressed by the regulator, and implementation is likely to be both challenging and costly.

Anxiety about the cost of regulation increases

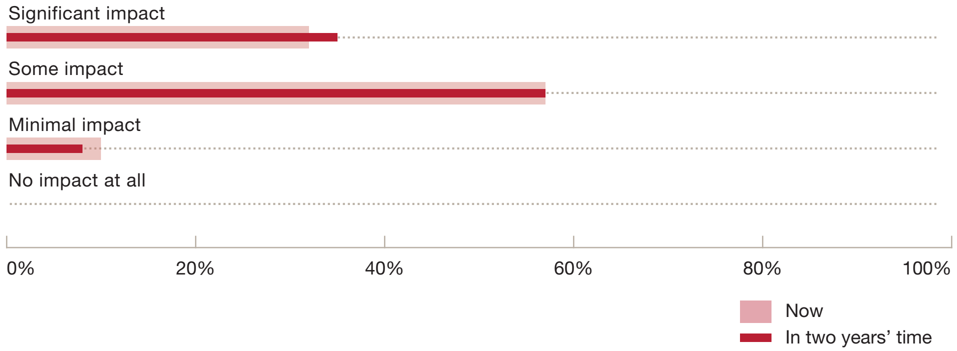
The mounting burden of regulation is having a material effect on costs bases. A third of respondents indicated that regulation would have a significant impact on their operating costs and as a result the profitability of their business. An additional 57% conceded that it would have at least some impact. Only 10% believed that it would have a minimal impact. Please see Fig. 24.

In spite of the potential for cost reduction, few global respondents actually coordinate their responses to new regulations across multiple business units and geographies. This is surprising given that cross-border standards are converging in some areas and this would foster development of a broader common understanding. Currently, only 40% coordinate their responses, which shows the potential for savings that exists, especially for larger institutions.

Despite the adverse financial impact, 57% of respondents still believe new regulation is beneficial. A further third have a neutral position on the subject. The regulatory agenda is broad, with a myriad of new compliance requirements and is putting pressure on risk and compliance functions,

Figure 24: Regulatory impact

How has the degree and type of regulation impacted your operating costs now and in two years' time?



Almost 50% of respondents indicate they are introducing new technology systems and supporting infrastructure as a means of improving their ability to comply with regulations.

50%

and requiring contribution and coordination across of multiple departments to develop solutions. Some wealth managers are having difficulty dealing with the extent and uncertainty around change, along with managing the challenges of implementation. Recent litigation and fines are becoming more public with impacts on a firm's reputation. Regulators are also becoming more demanding and less forgiving than in the past and will demand greater evidence of compliance.

Respondents told us they are struggling to understand exactly how regulations will apply to their firms and exactly what risks they pose. Identifying, hiring, introducing and retaining key staff at operational and supervisory levels is proving a considerable challenge. Securing this human capital is vital to maintain control and support operational processes, as well as governance and oversight. In a difficult financial environment, wealth managers are being forced to simultaneously invest in human capital, new policies and procedures, training, assessment, quality control and enabling technology. Another area of concern is global client privacy and especially the disclosure of client-specific information across borders to foreign regulators.

How the industry is responding

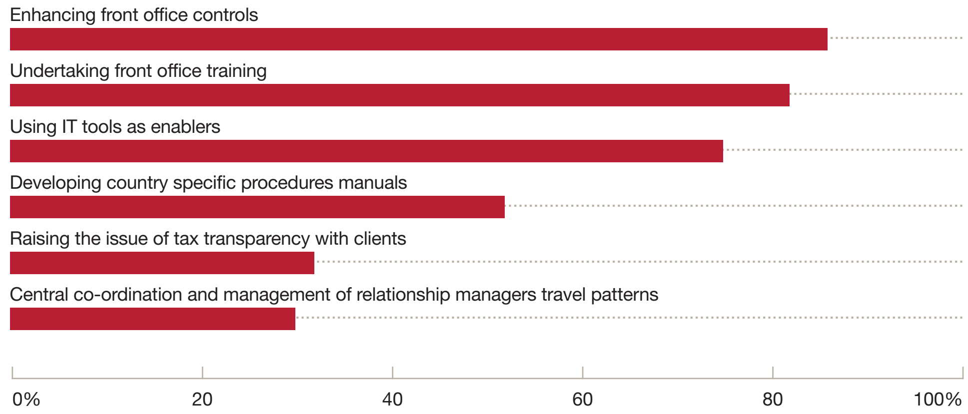
To understand where respondents are focusing their energies and scarce resources in response to the challenge of regulation, we asked them to list in order of importance the specific action steps they are taking to comply with regulations. Please see Fig. 25.

They reported several stages of activity. These included enhancing front-office controls, with elimination of control breaks, manual processes and spreadsheets. Additionally, they are training CRMs to raise their professional standards. Respondents regard technology as a tool for making compliance easier, with data management crucial for successful regulatory compliance. Almost 50% of respondents indicate they are introducing new technology systems and supporting infrastructure to improve their ability to comply with the coming wave of regulations.

One point that respondents make repeatedly is that at some point the cost of compliance becomes too high, creating opportunities for outsourcing and technology firms. In terms of cost, offshore participants are focusing on the issue of tax transparency, developing country-specific procedures manuals and coordinating relationship managers' travel patterns centrally. This enables them to manage the issues of appropriate jurisdictional presence and tax liability.

Figure 25: Steps undertaken to address regulatory challenges

Which of the following steps are you taking to meet our increased regulatory and compliance obligations?



But not all the industry is ready for new regulation. Only 15% of respondents viewed themselves as prepared. The majority, 66%, of our respondents indicated their preparations were either largely complete or that they were reviewing their progress. Of concern is that fully 18% are actually behind their expectations or have not started preparing. Some of these respondents indicated they are waiting for greater clarity on evolving regulation but know that they must act soon.

PwC viewpoint

Regulation becomes a strategic and operational issue

The onshore and offshore private banking and wealth management industry is now at the forefront of regulatory driven business model change.

The unprecedented regulatory change underway across financial services globally has common themes for wealth management. It affects capital requirements, tax outcomes and the customer experience. New regulations are now influencing business strategy at every dimension.

Preparing for regulatory change is no longer a simple matter of technical compliance but involves extensive business redesign, technology, processes and operations. The wide-ranging, complex and inter-dependent impacts of new regulation, and the immediacy resulting from regulators' more intrusive approach and greater enforcement powers, have created a series of high-level executive issues:

- Navigating an increasingly complex global web of regulatory change—where the devil is truly in the details
- Understanding where the business actually makes money, and the growth and cost levers that can affect change
- Grasping how detailed reporting requirements will affect systems, data, risk analytics, and management information

Cross-border challenges
Cross-border compliance continues to be an important issue for international institutions. Failure to comply can lead to fines, loss of licenses and reputational damage.

In the US, the Foreign Account Tax Compliance Act (FATCA) requires disclosure of cross-border client ownership of US securities and has a significant impact on all non-US financial institutions. Critically, while the enabling legislation stated FATCA's objective and sanctions in clear terms of withholding penalties, the detailed rules are still being promulgated. Once they are finalised and reported, there will be limited opportunity for review. New regulation demonstrates that the US Report of Foreign Bank and Financial Accounts (FBAR) and EU Markets in Financial Instruments Directive (MiFID) were only the first wave of demanding regulation.

Regulatory overlap is a real challenge
The Swiss Financial Market Supervisory Authority (FINMA) published a paper outlining their expectation that banks analyse legal and reputational risks, and take measures to minimize and eliminate risks in cross-border banking activities. This is a challenging area with real pressure from foreign tax authorities and regulators. Offshore activities in many countries will have to be normalised across markets. Greater compliance with foreign rules concerning market access, legal and jurisdictional challenges have resulted in development of country-specific manuals, training and education to aid relationship managers in determining what they can and cannot do in the markets they serve.

Regulators across the globe are moving to protect consumers. Whether in the EU, Singapore, the UK or US, regulations are establishing new ground rules regarding the conduct of wealth managers in areas such as sales, product suitability, and disclosure and advisor competency standards. In the UK, the Retail Distribution Review goes even further and requires a shift in traditional business models and pricing away from product-based commissions to fees for advice.

Consumer protection in wealth management
Some regulators are becoming much more proactive when assessing firms. They are focusing on product governance, scrutinising the whole product lifecycle from start to finish, rather than just focusing on clients and distribution and activity at points-of-sale. Regulators will increasingly demand that wealth managers develop products that are suitable for target markets. They will require products sold to clients to behave as expected over time. So wealth managers must introduce response frameworks and robust documentary evidence in important areas such as product approval, market conduct and advisor competency.

Regulators are emphasising that advisors conduct business with higher levels of integrity and professionalism. Appropriate standards of competence and knowledge will help wealth managers achieve this objective. Two ways in which they are raising professional standards are upgrading competency frameworks and higher advisor certification standards.

Conclusion
Wealth managers face more regulatory requirements than ever before. In areas such as cross-border banking, suitability and conduct risk, regulators will be watching how firms develop and approve products, and how they make sure that products fit clients' needs. Regulatory scrutiny will only increase and institutions that are able to successfully meet requirements will take market share from those that fail to anticipate change or keep up. Firms who get it right will build credibility with regulators and impress clients who are demanding trusted and competent advisors with higher levels of professionalism.

Background to the 2011 Survey

Client evolution:
The client is cautious, smart, less trusting and loyal and now demanding better service and clearer value

The impact of regulation:
A much more demanding regulatory agenda will continue to challenge existing business models

Operational excellence:
Far greater operational efficiency and effectiveness are required

Change is the reality:
Standing still is no longer an option. Being able to see beyond the pressures of today and implement effective change is critical

The 2011 survey gathered insights and perspectives on critical aspects of the challenges confronting participants, with a host of different operating models and businesses across all segments of wealth management.

Their combined responses yield a fascinating self portrait of global wealth management both now and into the coming years.

PwC's 2011 Global Private Banking and Wealth Management Survey, as in years past, reflects the changing industry landscape and adds our own point of view to provide the global wealth management community with an independent framework that can be used to guide further analysis and thought around how to better evolve business today to better serve the needs of clients tomorrow.

Background to the 2011 Survey

The 2011 Global Private Banking and Wealth Management Survey is our broadest and most significant assessment of the nature and pace of change in the wealth and private banking industry to date.

It encompasses all aspects of private banking and wealth management and focuses on wealth at every level from a holistic perspective of what is shaping the industry as well as how it impacts those serving the wealthy. Our definition of wealth management has always been broad, and this year it is even more expansive. We included institutions that serve the wealthy, manage and administer their assets.

This broad approach has provided us with a substantial range of insights from private banks, wealth managers, family offices, trust companies, insurance firms, asset servicers, private client groups at broker-dealers, universal banks, and other service providers.

As in prior years, we also surveyed a number of wealthy individuals and families worldwide and captured their perspectives around those that provide services to them.

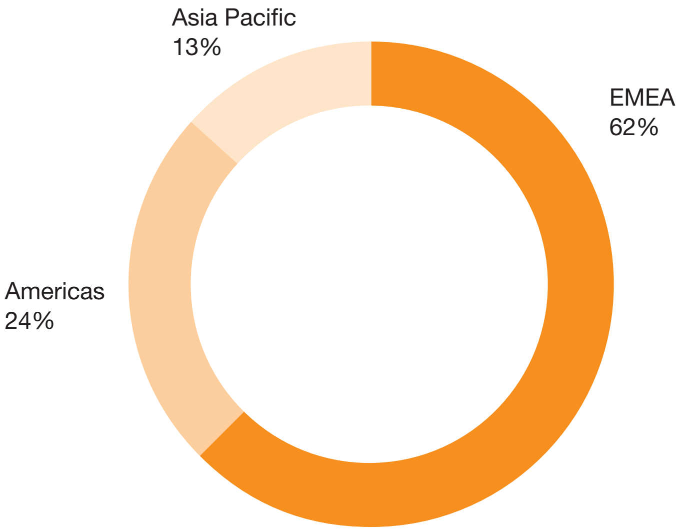
Our multi-disciplinary, structured approach to analysing the complex respondent data enabled PwC to develop a non-linear perspective and look at wealth management from the business executive's perspective. This encompassed far more than just analysing data and involved reflecting on the very nature of change and its characteristics and consequences for the wealth marketplace.

As in prior years, the 2011 Global Private Banking and Wealth Management Survey is open to all members of the community. There is no charge for participation, other than the time it takes an organisation to respond. No person or organisation sponsors the survey. All information is administered and retained in a highly secure and non-attributable manner. Participants represent a broad spectrum of industry respondents. Again this year, we were pleased by the number of direct requests for participation.

Each survey builds on our prior work which gives us a unique year-on-year perspective across a common set of indices. This is enhanced with a substantial refresh and revision process which helps us update our approach, refine content and capture nuances in the market and evolution of the private banking and wealth management space.

Figure 26: Territory breakdown

What is the primary location for which you are responding?



Participation

This year participation increased substantially. Please see Fig. 26 on the previous page.

Global participation was up on an individual country basis as well as the number of participants including many of the significant global members of the private banking and wealth management community. This year 275 participants from 67 countries participated in the survey. These respondents serve the high-net-worth community at every level across a broad product and service spectrum. Operationally, they represent a mix of domestic, regional, onshore and offshore business models, all focused on helping their clients manage wealth for the near- and long-term.

We offered the survey in Mandarin Chinese and were delighted at the extent of the results. More broadly, in this survey we focused heavily on emerging markets with many countries participating for the first time. Overall participation in these markets expanded significantly compared to 2009, e.g., India, Brazil and China.

Integrity and structure of the survey

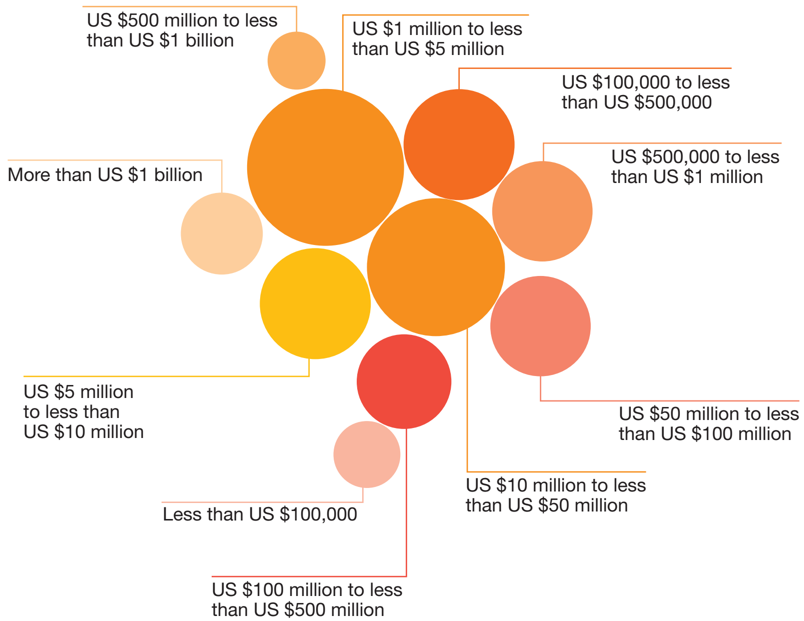
A key differentiator of this year's survey in comparison with prior years was the structure and format of the questions and the branching and routing capability of the on-line survey navigation and routing tool.

In addition, we provided on-line help, FAQs and drop down definitions throughout the survey to make sure that all respondents were operating with a common basis of understanding. A significant improvement in the use of web-enabled structuring increased accuracy and led to a higher degree of participation by respondents and a better overall quality of response.

Respondents shared their perceptions around the concentration of wealth in their businesses. Please see Fig. 27.

Figure 27: Concentration of wealth

Based on respondents' answers to the survey, we analysed how they saw concentrations of wealth in their business.



How we categorised wealth

Our survey continues to use the wealth management segment pyramid we have used for many years.

This year in response to participant feedback and in an effort to capture a broader and more diverse perspective on the marketplace, we have expanded our categories of wealth. These range from the mass affluent to the ultra high-net-worth and include family offices and multi-family offices. Therefore, we expanded our wealth tiers to reflect what our respondents were telling us. Please see Fig. 28.

We also refined the nature of relationships involved to reflect assets under management and assets under administration, to garner a more complete perspective on the services and relationships private banks and wealth managers bring to market.

Continued information and insights

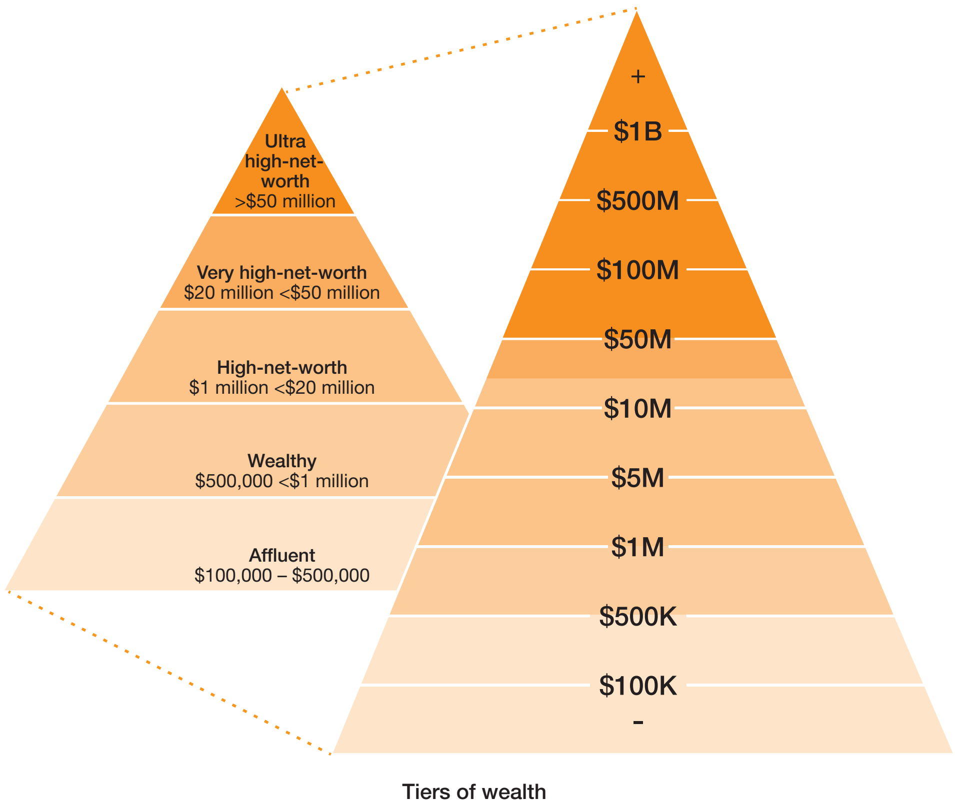
This report is the first release from our 2011 Global Private Banking and Wealth Management Survey. We plan to publish additional supplements, in both print and web versions, that will focus on specific topics in greater depth together with more detailed data analytics.

All participants in the survey will receive analysis in return for providing their valuable time to complete the survey questionnaire.

PwC can make further detailed analysis available including non-attributable industry comparisons covering: type of organisation, size, geographic reach and service offerings, tailored to specific request.

Survey releases and additional information and materials will be made available on the web at *www.pwc.com/wealth*.

Figure 28: Wealth pyramid



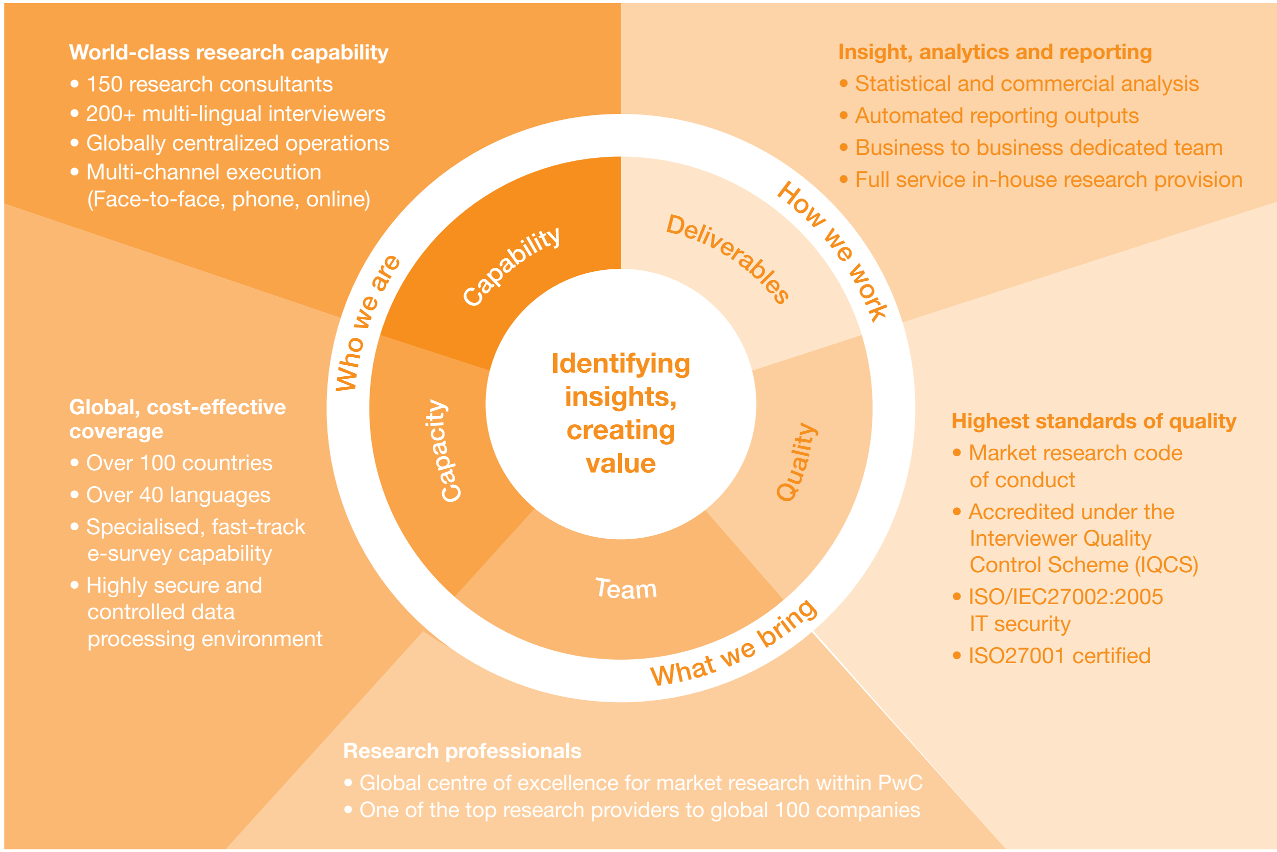
PwC's specialist, industry-leading International Survey Unit (ISU)

The ISU led the design, development and administration of the questions and the analysis of the data for the PwC Global Private Banking and Wealth Management Survey, as they have for the last 20 years. Please see Fig. 29.

With more than 150 quantitative and qualitative analysts, PwC UK's ISU is an industry-leading team, which conducts global market research on behalf of PwC and also major global institutions and governments. For the 2011 survey, the ISU provided 24x7 support for all our respondents and operated in a highly secure ISO standard environment, governed by the Market Research Code of Conduct. The ISU is critical to our commitment that all respondent identification and information is kept confidential and that analysis is conducted on a non-attributable basis within strict guidelines and a rigorous analytical framework.

The ISU is also key in supporting the quality of the survey analysis and has constantly worked to improve and enhance the survey, improving the ease of operations and enhancing the accuracy of the underlying data.

Figure 29: International Survey Unit, PwC UK



Contacts

The 2011 survey was written by the Global Private Banking and Wealth Management leadership team, together with the Global Editorial Board.

Global Editorial Board

United Kingdom
Ian Woodhouse
ian.woodhouse@uk.pwc.com
+44 0 20 7804 3411

Andrew Hogan
andrew.hogan@uk.pwc.com
+44 0 20 7804 5508

Tim Smyth
tim.smyth@uk.pwc.com
+44 0 20 7804 5495

Singapore
Mark Jansen
mark.jansen@sg.pwc.com
+65 8100 7123

Darja Habarova
darja.habarova@sg.pwc.com
+65 6236 3339

United States
Hemant Bhide
hemant.bhide@us.pwc.com
+1 646 471 3161

Peter Horowitz
peter.a.horowitz@us.pwc.com
+ 1 646 471 3243

Betsy Sprenkle
betsy.sprenkle@us.pwc.com
+1 646 471 5856

Switzerland
Charles Bokman
charles.bokman@ch.pwc.com
+41 0 58 792 9825

PwC Global Private Banking and Wealth Management network contacts

North America

Bahamas
Clifford Johnson
clifford.a.johnson@bs.pwc.com
+1 242 302 5307

Barbados
Ann Wallace-Elcock
ann.wallace-elcock@bb.pwc.com
+1 246 467 6809

Bermuda
Matthew Clarke
matthew.clarke@bm.pwc.com
+1 441 299 7151

Canada
Raj Kothari
rajendra.k.kothari@ca.pwc.com
+1 416 869 8678

George Sheen
george.sheen@ca.pwc.com
+1 416 815 5060

Cayman Islands
Frazer Lindsay
frazer.lindsay@ky.pwc.com
+ 345 914 8606

Noel Reilly
noel.t.reilly@ky.pwc.com
+ 345 914 8600

Mexico
Jose Antonio Quesada
jose.antonio.quesada@mx.pwc.com
+52 55 5263 6070

United States
C. Steven Crosby
c.steven.crosby@us.pwc.com
+1 646 471 4875

South America

Brazil
Joao Santos
joao.santos@br.pwc.com
+55 11 3674 2224

Jefferson Matias Oliveira
jefferson.oliveira@br.pwc.com
+55 11 3674 2583

Gilmara Lais Trevisan
gilmara.trevisan@br.pwc.com
+55 11 3674 3344

Uruguay
Javier Beechio
javier.becchio@uy.pwc.com
+598 2 916 0463

Middle East

Israel
Claudio Yarza
claudio.yarza@il.pwc.com
+972 3 795 4590

Middle East
Prathit Harish
prathit.harish@ae.pwc.com
+971 4 304 3330

Africa

South Africa
Paul Wilson
wilson.paul@za.pwc.com
+27 11 797 5630

To discuss our Global Private Banking and Wealth Management services and capabilities, please contact the appropriate country office representatives below or visit our website: ***www.pwc.com/wealth***

Asia / Pacific

Australia
Anthony James
anthony.james@au.pwc.com
+612 8266 1205

China
Afzal (Al) Tarar
afzal.tarar@cn.pwc.com
+86 21 2323 3666

Hong Kong
Emily Lam
emily.lam@hk.pwc.com
+852 2289 1247

India
Robin Roy
robin.roy@in.pwc.com
+91 6669 1360

Japan
Takeshi Shimizu
takeshi.shimizu@jp.pwc.com
+819 906515 1754

Singapore
Mark Jansen
mark.jansen@sg.pwc.com
+65 6236 7388

Justin Ong
justin.x.ong@lu.pwc.com
+352 49 48 48 2011

Thailand
Supavadee Lipiwathana
supavadee.lipiwathana@th.pwc.com
+62 2344 1340

Europe

Austria
Christoph Obermair
christoph.obermair@at.pwc.com
+43 1 501 88 3629

Belgium
Emmanuèle Attout
emmanuele.attout@pwc.be
+32 2 7104021

Patrice Delacroix
patrice.delacroix@pwc.be
+32 2 7107401

Gregory Joos
gregory.joos@pwc.be
+32 2 7109605

Czech Republic
Paul Cunningham
paul.cunningham@cz.pwc.com
+420 251 152 012

Denmark
Henrik Axelsen
henrik.axelsen@dk.pwc.com
+45 39 45 99 80

Finland
Tuukka Lahkela
tuukka.lahkela@fi.pwc.com
+358 50 340 5735

France
Marc Ripault
marc.ripault@fr.pwc.com
+33 1 56 57 1286

Germany
Dr. Eric Krause
eric.krause@de.pwc.com
+49 69 9585 2059

Greece
Thanassis Panopoulos
thanassis.panopoulos@gr.pwc.com
+30 210 6874628

Guernsey
Nick Vermeulen
nick.vermeulen@gg.pwc.com
+44 1481 752089

Ireland
Timothy O'Rahilly
timothy.orahilly@ie.pwc.com
+353 1 792 6862

Isle of Man
David Churcher
david.churcher@iom.pwc.com
+44 1624 689689

Italy
Rodolfo Pesati
rodolfo.pesati@it.pwc.com
+390 2 6672 0567

Jersey
Mark James
mark.james@je.pwc.com
+44 1534 838304

Luxembourg
François Génaux
francois.genaux@lu.pwc.com
+352 49 48 48 4175

Monaco
Frank Vanhal
frank.vanhal@fr.pwc.com
+377 92 05 71 00

Netherlands
Pieter J. Koene
pieter.koene@nl.pwc.com
+31 88 792 75 83

Poland
Lukasz Bystrzynski
lukasz.bystrzynski@pl.pwc.com
+48 22 523 4735

Portugal
António Assis
antonio.assis@pt.pwc.com
+351 213 599 172

Russia
Ekaterina Lazorina
ekaterina.lazorina@ru.pwc.com
+7 495 967 6365

Spain
Jose Luis Lopez Rodriguez
jose.luis.lopez.rodriguez@es.pwc.com
+34 915 684 445

Sweden
Sussanne Sundvall
sussanne.sundvall@se.pwc.com
+46 8 5553 3273

Switzerland
Matthias Memminger
matthias.memminger@ch.pwc.com
+41 58 792 13 88

Alex Astolfi
alex.astolfi@ch.pwc.com
+41 58 792 81 95

Roman Berlinger
roman.berlinger@ch.pwc.com
+41 58 792 23 18

Turkey
Umurcan Gago
umurcan.gago@tr.pwc.com
+90 212 326 6098

United Kingdom
Jeremy Jensen
jeremy.jensen@uk.pwc.com
+44 0 20 7804 3801

Ian Woodhouse
ian.woodhouse@uk.pwc.com
+44 0 20 7804 3411

Andrew Hogan
andrew.hogan@uk.pwc.com
+44 0 20 7804 5508

Tim Smyth
tim.smyth@uk.pwc.com
+44 0 20 7804 5495

PwC services for private banks and wealth managers

Strategy and Performance

- Strategic options analysis
- Corporate finance, valuations, integration and transaction support
- Market and client segmentation analysis
- Sustainability strategy advice
- Revenue growth strategy
- Client insight surveying
- Sales and channel strategy
- Loyalty management

Human Resources

- Talent management strategy
- Reward and compensation
- International mobility and tax compliance
- CRM training – technical and core soft skills
- Employee satisfaction surveys
- HR benchmarking
- Work force restructuring

Operations

- Cost reduction and operational effectiveness
- Operating model design and transformation
- Controls optimisation
- Offshoring, outsourcing and shared services support
- Post merger integration services
- Process re-engineering
- Business model transformation

Technology

- Business requirements definition
- IT risk management
- Systems selection, evaluation and integration
- Data security and IT controls reviews
- IT cost control and optimisation
- E-enablement
- Enterprise solutions
- IT strategy

Regulation and Compliance

- Regulatory risk assessments
- Compliance remediation
- Compliance function effectiveness
- Regulatory support

Risk Management

- Market, credit and operational risk management
- Compliance and regulation
- Capital risk management
- Forensic services

Taxation

- Corporate structuring
- Structured finance and complex transaction support
- Tax strategy and compliance
- HR and employment-related tax
- Expatriate taxation
- Product design and launch
- Family office support
- Private client services

Assurance

- Audit services
- Accounting advice
- Controls assurance
- Controls reporting
- Governance advice
- Corporate reporting
- Internal audit

Acknowledgements

A global effort like the 2011 Global Private Banking and Wealth Management Survey has many components. We recognise the team who helped make the 2011 survey a reality.

PwC Design Team:
Amy Kunz, James Ball, Carol King, Adam West, Tatiana Pechenik

Editorial Support:
Rupert Bruce (Clerkenwell Consultancy)

Print Production:
Kevin Franz (Intelligencer Printing Company)

We thank them all for their individual and collective contributions.

www.pwc.com/wealth

2011 Survey themes

Client evolution:
The client is cautious, smart, less trusting and loyal, and now demanding better service and clearer value

The impact of regulation:
A much more demanding regulatory agenda will continue to challenge existing business models

Operational excellence:
Far greater operational efficiency and effectiveness are required

Change is the reality:
Standing still is no longer an option. Being able to see beyond the pressures of today and implement effective change is critical

Contacts

United States
C. Steven Crosby
Americas Leader
c.steven.crosby@us.pwc.com
+1 646 471 4875

United Kingdom
Jeremy Jensen
EMEA Leader
jeremy.jensen@uk.pwc.com
+44 0 20 7804 3801

Singapore
Justin Ong
Asia Pacific Leader
justin.x.ong@lu.pwc.com
+352 49 48 48 2011